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I. INTRODUCTION

A. Introduction and Qualifications

Q. PLEASE STATE YOUR NAME, POSITION AND BUSINESS ADDRESS.

A. My name is Brian J. Frantz. My business address is 1 Riverside Plaza, Columbus, Ohio 43215. I am currently Director, Corporate Accounting, for American Electric Power Service Corporation (AEPSC), a wholly-owned subsidiary of American Electric Power Company, Inc. (AEP).

Q. WHAT ARE YOUR PRINCIPAL AREAS OF RESPONSIBILITY WITH AEPSC?

A. I am responsible for maintaining the accounting books and records, and regulatory reporting for AEPSC. I am also responsible for AEPSC’s monthly service billings to its affiliates. My responsibilities for AEPSC also include compliance with the Federal Energy Regulatory Commission’s (FERC) Uniform System of Accounts accounting and reporting requirements.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND.

A. I attended Ohio University and received a Bachelor of Business Administration degree, with an emphasis in Accounting in 1999. I have been employed by AEPSC since March 2005, when I was hired as a Staff Accountant in the Wholesale Commodity Accounting group. In May 2010, I was promoted to Supervisor of the Fuel and Contract Accounting group. In August 2013, I was promoted to Administrator of Regulated Accounting. In December 2013, I was promoted to Manager Regulated Accounting where I was responsible for the books and records for four operating companies (Indiana Michigan Power Company, Kentucky Power Company, Kingsport...
Power Company and AEP Generating Company). In November 2014, I moved to become Manager Regulated Accounting, where I was responsible for AEPSC, until being promoted to my current position of Director in December 2018. Prior to my employment with AEP, I spent approximately one year in a financial reporting role and five years in various roles in public accounting.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE ANY REGULATORY COMMISSIONS?

A. Yes, I have testified before the Corporation Commission of the State of Oklahoma (OCC) in Cause No. PUD 201500208. In addition, I submitted written testimony with the OCC in Cause Nos. PUD 201700151 and PUD 201800097, and with the Public Utility Commission of Texas (PUC or Commission) in Docket Nos. 44717, 44718, 45928, 45929, 46449, 47236, and 48422.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. My testimony addresses several areas, including:

- An overview of the affiliate costs included in this case, and an introduction of the AEP Texas (AEP Texas or Company) witnesses who will support those costs;
- A description of the approach AEP Texas has taken to meet its burden of proof for recovery of affiliate costs;
- An explanation of how AEPSC is organized to provide services to AEP Texas and other AEP utility operating companies;
- A demonstration of the management oversight and quality assurance controls in place to ensure that affiliate billings are accurate;
- A description of the Public Utility Regulatory Act’s (PURA) standards governing recovery of affiliate costs, as well as applicable Commission rules and precedent;
- A discussion of the Public Utility Holding Company Act of 2005 (PUHCA) and its impact on AEPSC;
- A discussion of the workings of AEPSC’s billing system for the services it provides to AEP Texas and the other AEP utility operating companies;
• A demonstration that the allocation factors used to allocate charges from AEPSC to AEP Texas during the test year are reasonable and ensure that AEP Texas’ charges are no higher than those of other AEP affiliates for the same services or types of services;

• A review and description of the charges made from AEP Texas affiliates (other than AEPSC) to AEP Texas during the test period, supporting the conclusion that those charges meet the Commission’s cost recovery standards; and

• Finally, I sponsor and describe the services provided to AEP Texas by AEPSC that fall within the Chief Financial Officer class of service, the Chief Executive Officer class of service, the Internal Support class of service, and the AEPSC Incentives class of service, and how the costs associated with these services meet the standards for recovery of affiliate costs.

Q. DO YOU SPONSOR ANY SCHEDULES IN THE RATE FILING PACKAGE?

A. Yes, I sponsor, Schedules V-K 1-14 of the Transmission & Distribution (TDU) Rate Filing Package for Investor-Owned Utilities (filing package). The affiliate portion of this rate case has been organized in the same manner as the prior Texas rate cases filed by AEP Texas’ predecessors, AEP Texas Central Company (TCC) in Docket No. 33309 and AEP Texas North Company (TNC) in Docket No. 33310, as well as prior Texas rate cases filed by AEP affiliate Southwestern Electric Power Company in Docket Nos. 40443 and 46449.

Q. WHAT OTHER EXHIBITS DO YOU SPONSOR?

A. I sponsor EXHIBITS BJF-1 through BJF-9 as listed in the Index to my testimony.

Q. WERE THE SCHEDULES AND EXHIBITS YOU ARE SPONSORING PREPARED BY YOU OR UNDER YOUR DIRECTION AND SUPERVISION?

A. Yes, they were.
B. Overview of AEP Texas' Affiliate Case

Q. PLEASE DESCRIBE THE AFFILIATE COSTS REQUESTED BY THE COMPANY.

A. As shown by class on Schedule V-K-1, the AEP Texas cost of service includes $68,866,570 of affiliate operations and maintenance (O&M) costs on a total company basis, in the following categories:

Table 1

<table>
<thead>
<tr>
<th>Affiliate</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>AEPSC</td>
<td>$67,781,767</td>
</tr>
<tr>
<td>Other Affiliates</td>
<td>$ 1,084,803</td>
</tr>
<tr>
<td>Total</td>
<td>$68,866,570</td>
</tr>
</tbody>
</table>

Source: EXHIBIT BJF-1

Q. HOW DOES THE $68.9 MILLION OF AFFILIATE EXPENSE INCLUDED IN THIS CASE RELATE TO THE TOTAL EXPENSES FOR AEP TEXAS?

A. AEP Texas' total company expense as shown on Schedule A of the filing package is $242.2 million, and the $68.9 million of affiliate costs included in that number represents approximately 28% of the total O&M requested in this case. The remaining approximately 72% is incurred directly by AEP Texas and not through an affiliate.

Q. HOW DO THE AEPSC AFFILIATE COSTS COMPARE TO THOSE IN DOCKET NOS. 33309 and 33310?

A. The December 2018 adjusted test year AEPSC affiliate costs of $67.8 million billed to AEP Texas are lower by $3.2 million, or about 4.5%, when compared to the June 2006 adjusted test year AEPSC affiliate costs of $71.0 million billed to TCC and TNC.
Q. PLEASE DESCRIBE HOW THE COMPANY HAS ORGANIZED ITS TESTIMONY REGARDING THE AFFILIATE COSTS.

A. AEP Texas' affiliate costs have been separated into nineteen classes, with each class supported by a witness who is responsible for or knowledgeable about that area of service (See Table 2). Additionally, my testimony provides an overview of billing mechanisms that demonstrates that the charges to AEP Texas are not higher than charges to other affiliates or third parties, discusses how the accounting for affiliate costs is accomplished, and discusses the use and reasonableness of allocation factors for each class. I also support the costs from the other non-AEPSC affiliates, which are primarily payments for services received from the affiliate companies.

The Company also engaged the consulting firm of Baryenbruch & Company, LLC to conduct an independent review of AEPSC's cost allocation processes, the necessity of services and the overall reasonableness of AEPSC billings to AEP Texas. This review includes trend analyses and benchmarking against other utility service companies, analyses of whether AEPSC services are duplicated at the operating company level, a review of the cost allocation process used by AEPSC, and a comparison of the cost of AEPSC services to third party providers. An independent third party review of this type is one of the guiding principles set out in the filing package as a means of meeting the burden of proof regarding affiliate costs. Patrick J. Baryenbruch has filed testimony in this case providing that overview of AEPSC and a review of AEP Texas' AEPSC costs.

Q. PLEASE SUMMARIZE THE WITNESSES PROVIDING AFFILIATE TESTIMONY SUPPORTING AEPSC COSTS IN THIS RATE CASE.
A. Table 2 below depicts the Company’s affiliate witnesses for AEPSC and the classes of service they support:

Table 2

Source: Schedule V-K-1

AEP Texas is presenting fifteen witnesses who address the nineteen classes of affiliate service. Four of those witnesses, shown in the top boxes of the chart above, testify either to overall reasonableness and necessity of affiliate costs (myself and Mr. Baryenbruch) or to the reasonableness and necessity of specific major components of all affiliate costs such as payroll and benefits (Andrew R. Carlin and Curt D. Cooper, respectively).

The other eleven affiliate witnesses and I each address the class of service for which he or she is responsible for or has knowledge. In particular, the witnesses discuss...
the nature and necessity of the affiliate services provided to AEP Texas and the
reasonableness of the cost of those services.

Each witness also presents, as available and meaningful, cost trends, budget
comparisons, staffing trends, benchmarks, and other types of evidence suggested by
the “Guiding Principles” in the Commission’s Filing Package, for proof of the
reasonableness of AEP Texas’ affiliate costs.

I also present testimony supporting the allocation factors utilized by AEPSC to
ensure that AEP Texas pays no higher price than any other AEP company for the
services it receives from AEPSC.

C. Roadmap of the Affiliate Case

Q. HAVE YOU PROVIDED A “ROADMAP” FOR A REVIEW OF AEP TEXAS’
AFFILIATE CASE, INCLUDING SCHEDULES AND OTHER DOCUMENTS
FILED IN THIS CASE?

A. Yes. We have been meticulous in structuring the entire affiliate-related case around
the classes of service for which we are requesting approval. To that end, this testimony
provides a master cross-reference to source information related to each class of affiliate
cost presented in the Company’s case. This cross-reference is provided as EXHIBIT
BJF-2.

Q. PLEASE DESCRIBE EXHIBIT BJF-2.

A. EXHIBIT BJF-2 shows where one can locate and review cost detail and evidence
supporting total AEPSC costs, the costs of affiliates other than AEPSC, and each of the
nineteen AEPSC classes of service presented by the Company. This exhibit references
the affiliate witness testimonies, the Exhibits to my testimony, and the Workpapers
(W/P) I provide which support the reasonableness and necessity of affiliate services and costs, including compliance with the Commission’s “no higher than” standard.

Q. PLEASE PROVIDE AN EXAMPLE OF HOW THIS EXHIBIT CAN BE USED TO REVIEW THE AFFILIATE COSTS INCLUDED IN THIS CASE.

A. To explain how to use EXHIBIT BJF-2, I’ll use the Customer Service class of service on page 4 of the Exhibit as an example.

Page 4 relates to the Customer Service class and establishes that the Company witness supporting the class is Joel Murphy. The amount included in the Company’s request is shown, less the total pro-forma adjustments made for that class, resulting in the net requested amount of $4,943,371.

EXHIBIT BJF-2 points out that the reasonableness and necessity of the costs and services in this class are discussed in the testimony of Mr. Murphy. In his testimony, Mr. Murphy provides an overview of AEP Texas’ Customer Service organization and how AEPSC supports that organization. He provides quality of service information, cost trends, and performance to budget by department. He also provides benchmarking comparing AEP Texas’ customer service costs to those of other service providers. I discuss the allocation factors used to bill the AEPSC Customer Service costs to AEP Texas, and why those allocation factors reflect the most representative cost drivers for the services provided.

The next section on page 4 of EXHIBIT BJF-2 provides references to the workpapers and schedules that contain the supporting information for the Customer Service class. This section allows the reviewer to examine the amounts billed by AEPSC in the Customer Service class by:
1. Allocation factor used to bill the service;
2. Benefiting location billed for the service;
3. Activities performed by this class;
4. Departments within the class;
5. Components of the amount, such as labor, outside services, etc.;
6. Category of service within the class, as provided in the witness’ testimony;
7. FERC account charged, with pro-forma adjustments; and
8. A listing of the invoices and other items the witness removed from the request for the class.

Q. PLEASE SHOW HOW THE WORKPAPERS AND SCHEDULES REFERENCED ON THIS EXHIBIT ARE ORGANIZED.

A. The first workpaper referenced on the Customer Service roadmap is W/P Frantz-2B, with a page and beginning line reference. This workpaper provides, for each class of service, a summary of the amount billed using each AEPSC allocation factor (the usage of which is discussed later in this testimony). Using this workpaper, the reviewer can see the specific allocation factors used to allocate the Customer Service class to AEP Texas. The reasonableness of the application of these allocation factors is then discussed later in my testimony.

Each of the workpapers or schedules listed in the roadmap provides the detailed information supporting one of a variety of detail sorts and views of each of the nineteen classes of service.

Q. PLEASE DISCUSS THE FINAL SECTION OF THE CUSTOMER SERVICES PAGE OF THE ROADMAP, SHOWING THE OTHER TESTIMONY THAT SUPPORTS ELEMENTS OF THE CLASS OF SERVICE.
A. The final section of the Customer Service page of the roadmap provides a listing of the testimony provided by other witnesses supporting the Customer Service class. This testimony includes support of the overall reasonableness and necessity of specific components of each affiliate class, such as labor, and how the allocation of those costs meets the “no higher than” standard.

Q. DO ANY OF YOUR WORKPAPERS SHOW THE COSTS BROKEN DOWN BETWEEN THE CENTRAL AND NORTH DIVISIONS OF AEP TEXAS?

A. Yes, for informational purposes, each schedule will be shown on a divisional basis as well as a total AEP Texas basis.

Q. DID YOU PROVIDE THE AEPSC BILLING INFORMATION FOR THE TEST YEAR TO THE WITNESSES LISTED IN EXHIBIT BJF-1?

A. Yes. I compiled the AEPSC billing information for AEP Texas costs for the test year. I make a number of pro-forma adjustments that are described below in Section I.D. of my testimony. The net impact of the pro-forma adjustments is a reduction of $4,971,764 to AEPSC affiliate costs. The amounts billed to AEP Texas by class of service, and the adjustments to each class, can be seen on Schedule V-K-1.

D. Description of Affiliate V-K Schedules and Pro-Forma Adjustments

Q. PLEASE DESCRIBE THE AFFILIATE SCHEDULES IN THE FILING PACKAGE AND HOW EACH RELATES TO AFFILIATE COSTS INCLUDED IN AEP TEXAS’ PROPOSED REVENUE REQUIREMENT.

A. Pages 66-68 of the Filing Package require that the Company file fourteen schedules in support of affiliate costs. These schedules do not require a specific format.
requirements of each schedule and what the Company provided to meet those
requirements is detailed on my EXHIBIT BJF-3.

Q. PLEASE DESCRIBE THE PRO-FORMA ADJUSTMENTS YOU HAVE MADE TO
AEP TEXAS’ TEST YEAR AFFILIATE COSTS.

A. I have made eleven pro-forma adjustments which result in a net decrease to AEP Texas’
test year affiliate costs by the amount of $5,045,771. Those adjustments are to:

1. Remove invoices or line-item charges as requested by supporting affiliate
witnesses, through their review of individual charges to AEP Texas - decrease
of $1,911,049;

2. Normalize the amount of annual incentive compensation paid to employees to
target level. AEP Texas witness Carlin discusses the Company’s annual
incentive compensation program – decrease of $2,130,015;

3. Normalize the amount of long-term incentive compensation paid to employees
to target level. AEP Texas witness Carlin discusses the Company’s long-term
incentive compensation program – decrease of $302,463;

4. Remove corporate aviation charges – decrease of $1,041,835;

5. Remove charges related to regulatory filings recoverable through other rate-
making mechanisms – decrease of $838,006;

6. Adjust the test year benefit plan costs for pension and other post-employment
benefits (Statement of Financial Accounting Standards (SFAS) 106 and SFAS
112) to a 2019 level, per current actuarial estimates. AEP Texas witness
Randall W. Hamlett discusses these benefit plans in greater detail – decrease of
$305,605;

7. Adjust payroll to a test year-end level through a recalculation of test year-end
headcount and include a merit increase. AEP Texas witness Carlin discusses
merit increases in greater detail – increase of $3,656,917;

8. Reflect AEP Texas’ portion of AEPSC donations for which the Company is
requesting recovery (subject to Commission rule limitation). AEP Texas
witness Gilbert Hughes further discusses the requested AEPSC donations –
increase of $106,694;

9. Remove any additional legislative advocacy expense associated with Edison
Electric Institute dues that were not charged to “below the line” accounts –
decrease of $100;

10. Normalize the test year impact of the AEPSC Umbrella Trust, which primarily
has assets related to the cash surrender value of insurance policies, to reflect a
five-year trend of the change in the value of these policies – decrease of
$1,848,469;

11. Adjust the AEPSC internal support “loading” charge to reflect the net decrease
in requested costs per the pro-forma adjustments above. AEPSC internal
support is discussed further in Section IV. C. of my testimony – decrease of
$431,840.

Each of these adjustments, with the calculation and description of the adjustment, is
contained in EXHIBIT BJF-4 and is summarized by FERC Account on Schedule
V-K-2.

II. MANAGEMENT AND REGULATORY OVERSIGHT OF AEPSC

A. Organization of AEPSC

Q. WHAT IS AEPSC?

A. AEPSC is a wholly-owned subsidiary of AEP and is the centralized service company
for the AEP System. AEPSC provides services primarily to AEP’s utility companies
(utility affiliates), including AEP Texas, under a Service Agreement between AEPSC
and AEP Texas’ predecessor companies, Central Power and Light and West Texas
Utilities, both of which are dated June 15, 2000. AEPSC performs, at cost, various
professional support services for AEP Texas and the other AEP affiliates. I and the
other affiliate witnesses testifying in this case describe in detail the various support
services that AEPSC performed for AEP Texas during the test year. Of the
approximately 17,500 employees of the AEP system, approximately 6,300 work for
AEPSC.
Q. WHAT IS THE PRIMARY MISSION OF AEPSC?

A. AEPSC was established first and foremost to provide services to the utility affiliates. The utility affiliates are the primary subsidiaries of AEP. Since there are similar utility affiliates which all require the same or similar services, these companies' operations present the greatest opportunity to achieve economies of scale through provision of centralized AEPSC services. In addition to the utility affiliates, AEPSC provides service to several regulated transmission-only subsidiaries (Transcos) and AEP's transmission joint ventures, as well as to AEP's non-utility subsidiaries.

Q. WHAT IS THE NATURE AND EXTENT OF AEPSC'S SERVICES FOR AEP NON-UTILITY SUBSIDIARIES?

A. Of the approximately $60 billion of assets owned by AEP, approximately 90 percent are regulated utility affiliate assets. AEP's primary non-utility companies are the AEP Generation and Marketing organization consisting of non-regulated generation in ERCOT and Pennsylvania-New Jersey-Maryland (PJM) regional transmission organizations (RTOs) as well as marketing, risk management and retail activities in ERCOT, PJM, Southwest Power Pool (SPP) and Midwest Independent Transmission System Operator. The non-utility companies are charged for specific services provided to them by AEPSC, as well as being included in the corporate allocation factors for items such as payroll, benefits, accounting, auditing, and other corporate management allocations, where appropriate. AEPSC also bills the parent corporation for services provided to it such as shareholder support and strategic planning.

AEPSC billings to all affiliates during the test year can be reviewed using Schedule V-K-12.
Q. PLEASE DESCRIBE HOW AEPSC IS ORGANIZED.

A. AEPSC is functionally organized into the following areas of services: 1) External Affairs, which includes distribution, customer operations, corporate communications, and regulatory services; 2) Chief Administrative Officer, which includes information technology, telecommunications, real estate and workplace services, and corporate human resources; 3) Generation, which encompasses regulated generating assets, engineering services, regulated commercial operations, project and construction services, business services, and environmental services; 4) Transmission, which includes field services, business operations and controls, grid development, and strategy and policy; 5) Chief Financial Officer, which includes corporate accounting, corporate planning and budgeting, treasury, finance, investor relations, risk and strategic initiatives, supply chain, procurement and fleet services; 6) Energy Supply; 7) Utilities; and 8) Chief Executive Officer, which includes the AEP Chairman and his staff, audit services and legal services.

Q. DO ALL OF THESE AREAS PROVIDE SERVICES TO AEP TEXAS?

A. All of these areas provide services to AEP Texas, with the exception of Energy Supply, whose primary responsibility is to serve the deregulated generation of AEP.

Q. WHERE ARE THE AEPSC EMPLOYEES WHO PERFORM SERVICES FOR AEP TEXAS LOCATED?

A. The primary service company centers are located in Columbus, Ohio; Canton, Ohio; and Tulsa, Oklahoma. These three locations employ approximately half of the AEPSC employees. AEPSC employees are also located throughout the areas of the AEP utility companies. In AEP Texas’ case, AEPSC employees provide services from offices in
Dallas, Texas, Austin, Texas, and Corpus Christi, Texas. Since many of the services that are provided are centralized to reduce the number of personnel needed and reduce the costs to provide those services, activities may be provided from any of several locations. For example, AEPSC has six customer service call centers where customer calls for all AEP utilities are answered. Any of these centers, will back up other call centers when call volume is high, to efficiently service customer calls and to reduce the number of customer service representatives necessary to support any one company.

Q. ARE THERE ADVANTAGES THAT RESULT FROM AEP TEXAS' RECEIPT OF CENTRALIZED SUPPORT SERVICES?

A. Yes. AEPSC has evolved over the years to provide services in areas where economies can be produced through a common knowledge and provision of services using shared systems, such as the customer accounting and billing, property, payroll, accounting and other systems. It also achieves economies through standardized processes being performed by one system-wide department, such as the payment of invoices or the provision of engineering studies for new facilities. Using the service company to provide these services allows the operating companies to concentrate their efforts on serving the immediate needs of their customers, while common processes can be performed in a centralized manner to promote efficiency and cost savings.

B. Management Oversight and Controls

Q. WHAT MANAGEMENT OVERSIGHT AND CONTROLS EXIST TO ENSURE THE COSTS ARE APPROPRIATELY BILLED TO THE PROPER AFFILIATE?

A. AEPSC employs many levels of oversight to ensure that its costs are billed accurately. The management oversight and controls can be divided into three main categories:
1) **accounting system controls**, which ensure that the accounting systems are operating correctly and that the mechanical processing is accurate; 2) **management oversight**, including review of departmental charges to budgets, variance explanations, and review of the monthly AEPSC bill; and 3) **audit and reporting oversight**, which incorporates the internal and external audits performed on AEPSC as well as state and federal regulatory reporting requirements. Each of these areas is discussed in detail on Schedule V-K-10.

**Q. PLEASE REVIEW THE ACCOUNTING SYSTEM CONTROLS.**

**A.** The accounting system controls include the following:

- **Transaction validation** where the accounting information is validated as to its accuracy at the point of entry;
- **Mechanical reviews**, which test the mechanics of the system to ensure the system is operating as expected; and
- **Variance review**, which is performed to understand the reasons for increases or decreases in total AEPSC costs for the month.

**Q. PLEASE DISCUSS THE MANAGEMENT OVERSIGHT OF AEPSC CHARGES.**

**A.** Management oversight of the AEPSC bill consists primarily of:

- **Internal AEPSC budget and actual cost reviews; and**
- **Monthly review of the AEPSC bill by affiliate companies.** A copy of the December 2018 AEPSC billing rendered to AEP Texas is provided in EXHIBIT BJF-5. In addition, the monthly AEPSC review document provided to AEP Texas and other affiliate management is provided as EXHIBIT BJF-6.

**Q. WHO IS RESPONSIBLE FOR THE EXTERNAL OVERSIGHT AND REGULATION OF AEPSC’S OPERATIONS AND BILLINGS?**

**A.** FERC is responsible for the oversight and regulation of AEPSC under the Public Utility Holding Company Act of 2005. The PUC, in proceedings such as these, also reviews
charges from AEPSC to AEP Texas. In addition, the other state commissions review charges from AEPSC in similar proceedings or through various filing requirements.

Q. PLEASE DISCUSS THE EXTERNAL AUDIT AND REPORTING OVERSIGHT OF THE AEPSC BILLING PROCESS.

A. AEPSC is subject to numerous audit and reporting requirements, both as a member of the AEP Corporation for financial reporting, and as a requirement of federal and state jurisdictions. These requirements include:

- Annual AEP independent audit by PricewaterhouseCoopers LLP;
- Audit required under the 16 Tex. Admin. Code (TAC) § 25.272, “Code of Conduct for Electric Utilities and Their Affiliates,” filed every three years, showing compliance with the Texas affiliate code of conduct;
- Annual “Report of Affiliate Activities” filed with the PUC;
- Annual Affiliate Activities report filed with the Virginia State Corporation Commission;
- FERC Form 60 which is the annual report of AEPSC financials and allocations;
- Maintenance of an AEPSC Cost Allocation Manual, which documents AEPSC’s cost allocation methodologies and accounting procedures and which is required by the states of Kentucky, Ohio, Oklahoma and Arkansas; and
- Periodic audits of AEPSC accounting and billing procedures conducted by FERC staff.

C. Standards Governing Recovery of Affiliate Costs

Q. ARE AFFILIATE EXPENSES ADDRESSED IN THE TEXAS PURA?

A. Yes, affiliate expenses are addressed by PURA § 36.058. Section 36.058 allows an electric utility to include in its revenue requirement payments to affiliates that meet the requirements of § 36.058(b). Section 36.058(b), in turn, directs the Commission to allow recovery of affiliate payments “only to the extent that the regulatory authority finds the payment is reasonable and necessary for each item or class of items…” In
addition, § 36.058(c) requires that the Commission find that “the price to the electric
utility [for the affiliate service] is not higher than the prices charged by the supplying
affiliate for the same item or class of items” to other affiliates or to non-affiliated
persons. Because the billings of AEPSC and other AEP utility companies to AEP
Texas are affiliate charges, the requirements of § 36.058 apply to those billings.
Finally, sub-section 36.058(f) provides:

(f) If the regulatory authority finds that an affiliate expense for the test
period is unreasonable, the regulatory authority shall:

(1) determine the reasonable level of the expense; and
(2) include that expense in determining the electric utility’s
service.

Under this provision, if the Commission finds that a utility applicant has not met its
burden of proof concerning the reasonableness of an affiliate class or item, instead of
disallowing the entirety of the amount in question, the Commission must determine the
reasonable level of cost and include that reasonable level in the utility’s cost of service.

Q. DOES THE PUBLIC UTILITY COMMISSION OF TEXAS ALSO HAVE RULES
PERTINENT TO THE REVIEW OF AFFILIATE TRANSACTIONS?

A. Yes. 16 TAC § 25.272 discusses the code of conduct with which electric utilities and
their affiliates must comply. Specifically, § 25.272(e)(1) states

...In accordance with PURA and the commission’s rules, a utility
and its affiliates shall fully allocate costs for any shared services,
including corporate support services, offices, employees,
property, equipment, computer systems, information systems, and
any other shared assets, services, or products.

Q. HOW ARE CORPORATE SUPPORT SERVICES DEFINED IN THE
SUBSTANTIVE RULES?
A. 16 TAC § 25.272(c)(4) defines corporate support services as those "joint corporate oversight, governance, support systems and personnel," "shared by a utility, its parent holding company, or a separate affiliate created to perform corporate support services...." AEPSC is such an affiliate. This section of the rule further provides examples of the types of support services that may be shared, including accounting, human resources, procurement, information technology, regulatory services, legal services, environmental services, research and development, internal audit, community relations, and corporate services, among others. The services provided to AEP Texas by AEPSC are of the same type referenced in the Commission's rule.

Q. DO THE AFFILIATE COSTS INCLUDED IN AEP TEXAS' REVENUE REQUIREMENTS COMPLY WITH APPLICABLE STANDARDS IN TEXAS STATUTES AND RULES?

A. Yes, they do. I and other witnesses will discuss how the costs meet the tests for being reasonable and necessary, and that these costs are no higher than prices charged by the affiliate to others.

D. The Public Utility Holding Company Act of 2005

Q. PLEASE DISCUSS FERC REGULATION OF SERVICE COMPANIES, SUCH AS AEPSC.

A. With FERC Order No. 667, issued December 9, 2005, the FERC amended its regulations to implement the repeal of the Public Utility Holding Company Act of 1935 and adopted rules to implement the Public Utility Holding Company Act of 2005. The FERC also continues to exercise its authority over affiliate transactions under the
Federal Power Act. These laws give the FERC authority to examine the propriety of AEPSC charges and allocation factors.

Q. DOES THE FERC REVIEW AEPSC BILLING PROCEDURES AND ALLOCATION METHODOLOGIES?

A. Yes. On an annual basis, the FERC requires the filing of the FERC Form No. 60, “Annual Report of Centralized Service Companies.” In addition, FERC is currently conducting an audit of AEP affiliate transactions. The focus of this audit is AEPSC billing and allocation processes, as well as compliance with the FERC chart of accounts, FERC Form 60 requirements, and record retention requirements.

III. THE AEPSC ACCOUNTING AND BILLING PROCESS

A. Overview of AEPSC Accounting System

Q. HOW IS THE ACCOUNTING FOR AEPSC CHARGES PERFORMED?

A. AEPSC uses a work order accounting system to identify and bill each service performed for affiliate companies. For each service performed by AEPSC, three questions are key:

a. WHO should be billed for the service?
b. HOW should the service be billed?
c. WHAT service was provided?

AEPSC’s accounting and billing systems were developed to bill affiliates based on these basic elements. The primary accounting codes which determine how AEPSC costs are billed, and which I’ll discuss in detail below, are:

- Benefiting Location (tells who to bill)
- Allocation Factor (tells how to bill)
Q. PLEASE DESCRIBE HOW THE AEP COMPANIES ARE STRUCTURED FOR REPORTING AND AEPSC BILLING.

A. An understanding of how the AEP companies are structured for internal and external reporting is an important basic element in understanding how AEPSC costs are billed.

Each utility company is subdivided into multiple “Business Units.” For most utilities, these Business Units (BU’s) are Transmission, Distribution and Generation, while AEP Texas BU’s in this case would just be Transmission and Distribution, as seen below:

| Table 3 |
| AEP Texas – Business Units |

<table>
<thead>
<tr>
<th>Legal Entity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transmission</td>
</tr>
<tr>
<td>Distribution</td>
</tr>
</tbody>
</table>

Business Units 192 (North) & 169 (Central)

Business Units 119 (North) & 211 (Central)

Source: EXHIBIT BJF-7

AEP Texas is a legal entity or corporation, owning transmission, distribution and generation assets. AEP Texas prepares financial statements on the legal entity basis—all Business Units combined. However, the only AEP Texas BU’s in this case are the four Business Units as shown in the illustration above. AEPSC bills its affiliates by individual Business Unit.

Q. PLEASE EXPLAIN HOW THE BUSINESS UNITS COMBINE TO FORM BENEFITING LOCATIONS.
A. A Benefiting Location is one or a combination of Business Units. The Benefiting Location can be one Business Unit, such as AEP Texas North Division Transmission only, or it can be a combination of Business Units, such as the four AEP Texas Business Units in Table 3 above. Benefiting Locations are often combinations of "similar" or "regional" Business Units across multiple companies, such as all Distribution Business Units, all Texas Business Units, all SPP or ERCOT Transmission Business Units, etc. Below is an example of how various Business Units comprise a Benefiting Location.

**Table 4**

**Benefiting Location Example**

<table>
<thead>
<tr>
<th>AEP Texas North Division</th>
<th>AEP Texas Central Division</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transmission 192</td>
<td>Transmission 169</td>
</tr>
<tr>
<td>Distribution 119</td>
<td>Distribution 211</td>
</tr>
</tbody>
</table>

“Transmission—AEPTC/AEPTN” Benefiting Location Includes Business Units 169,192

“Distribution—AEPTC/AEPTN” Benefiting Location Includes Business Units 119,211

Source: EXHIBIT BJF-7

As is seen above, the Central and North Divisions of AEP Texas can combine to form numerous Benefiting Locations. By combining Business Units 119, 169, 192 and 211, AEPSC creates a Benefiting Location to bill both Transmission and Distribution for the North and Central divisions. A combination of Business Units 169 and 192 creates a Benefiting Location to bill the Transmission Business Units for the North and Central divisions. When the cost of a particular service should be billed to more than one
Business Unit, AEPSC uses these combinations of Business Units, called a *Benefiting Location*, to bill those costs.

Q. **HOW ARE THE BENEFITING LOCATIONS CHOSEN TO BILL CHARGES TO THE APPROPRIATE COMPANIES?**

A. An employee chooses the Benefiting Location through his or her choice of the appropriate work order for the work performed. Work orders have a pre-established Benefiting Location and are discussed in more detail later in this section.

Q. **PLEASE DESCRIBE THE BENEFITING LOCATIONS THAT INCLUDED AEP TEXAS BUSINESS UNITS DURING THE TEST YEAR.**

A. AEPSC used 58 different Benefiting Locations to bill services during the test year that included the four AEP Texas business units included in this case. These Benefiting Locations, including a description of the Business Units included in each one, are attached to this testimony as EXHIBIT BJF-7. Benefiting Locations used in connection with billings to AEP Texas during the test year included, for example, all Business Units within AEP Texas, all distribution companies within AEP, and all transmission companies within AEP. Of the charges AEP Texas received from AEPSC during the test year, 22% of those charges were made to AEP Texas Business Units only, or in effect, direct billed. No other companies were included in the allocation of those costs.

Q. **IF A CHARGE IS ALLOCATED USING A BENEFITING LOCATION THAT INCLUDES MORE THAN ONE AEP TEXAS BUSINESS UNIT, HOW CAN THAT BE CONSIDERED A “DIRECT” CHARGE?**

A. Functional separation within a legal entity such as AEP Texas does not equate to an “allocation” to that legal entity when each functionally separate Business Unit is billed.
It is necessary to combine the Business Units within one company to determine the amount of charges that are directly billed versus allocated.

2. Allocation Factor (How To Bill)

Q. YOU STATED EARLIER THAT THE "ALLOCATION FACTOR" PROVIDES THE "HOW" OF THE BILLING PROCESS. PLEASE EXPLAIN.

A. Allocation factors are mathematical formulas that have been developed to provide fair and reasonable methods to allocate joint costs. Each charge made by AEPSC for a service provided has the Benefiting Location that determines WHO to bill, as I discussed earlier and also has an allocation factor attached to it which determines HOW the charge should be divided among the Business Units receiving the service.

Q. WHAT ALLOCATION FACTORS ARE USED BY AEPSC TO BILL AFFILIATES?

A. Schedule V-K-11 shows the allocation factors that are available to allocate costs to affiliates. AEPSC has eighty FERC-accepted allocation factors. Only twenty-three of the allocation factors were used on the costs billed to AEP Texas during the test year since some of the allocation factors do not apply to AEP Texas (such as hydro plant megawatt generating capability), and we have discontinued using others. A chart showing the amounts billed by allocation factor is presented later in this section, as Table 5.

Q. GENERALLY DESCRIBE THE ALLOCATION FACTORS.

A. The allocation factors used to bill AEP Texas for services performed by AEPSC are based upon statistics such as number of customers, number of employees, total assets, number of transmission pole miles and other criteria as shown on Schedule V-K-11. The data upon which these factors are based is updated monthly, quarterly, semi-
annually or annually, depending on the particular basis. When a cost is allocated, the allocation factor is applied to the business units that make up the benefiting location that was chosen for the billing. Thus, only those business units who benefit from the service are allocated their portion of the cost.

Q. WHAT TYPES OF CONSIDERATIONS GO INTO CHOOSING AN ALLOCATION FACTOR FOR A PARTICULAR WORK ORDER OR ACTIVITY?

A. A volume-driven factor is used in all cases where the cost driver is volume based and the data is available. For example, in allocating costs for processing accounts payable, each affiliate receiving the service might be billed based on its relative percentage of the number of vendor invoice payments processed by AEPSC; for mailing customer bills, each affiliate's relative percentage of the total mailings might be used.

If a work order does not have a direct volume-based cost driver, the most representative factor for the service provided is used. For example, for administering employee benefit plans, number of employees might be used; for managing and dispatching the transmission system, number of transmission pole miles might be used; and for financial reporting, total assets might be used. The allocation factors are designed to ensure that the charges are in proportion to the benefits received by the benefiting companies.

Q. WHAT SHOULD BE THE OBJECTIVE OF AN ALLOCATION METHOD?

A. An allocation method should be used which allocates costs on a basis that reasonably relates the cost to the activity generating the cost. For example, when more activity generates more cost, an allocation factor that captures that characteristic provides a reasonable relationship between the dollars allocated and the demand for the service.
The allocation factors should be applied consistently for similar services and should be fairly stable over time. In my opinion, AEPSC's continued use of the approved allocation factors accomplishes these objectives.

Q. CAN ALL COSTS BE CHARGED DIRECTLY TO EACH COMPANY, INSTEAD OF ALLOCATED THROUGH A FACTOR?

A. No. While costs are directly billed to the extent practicable, costs jointly incurred on behalf of one or more affiliates must be allocated because the product or service provided is not reducible to discrete, easily divisible parts. For example, if an AEPSC distribution engineer were working on a standard substation design that will be used by all of the distribution companies in the AEP system, it would not be practical or possible to identify and direct bill discrete portions of the design to individual distribution Business Units. As a result, that engineer would bill the cost of that project to all distribution Business Units using a distribution-related allocation factor. If the AEPSC engineer prepared a separate drawing for each company in order to direct bill such services, it would be necessary to duplicate the staffing and resources used to provide the service for each affiliate using the service, thereby defeating the very purpose of having the service company.

Q. PLEASE SUMMARIZE THE AEPSC BILLINGS TO AEP TEXAS DURING THE TEST YEAR BASED ON THE ALLOCATION FACTORS USED.

A. Table 5 on the next page shows the billings to AEP Texas by allocation factor, and it indicates in the two columns whether that billing was: (a) charged to a combination of only AEP Texas Business Units, such that the charge was in effect a direct bill to AEP Texas; or (b) if it was allocated to AEP Texas along with other AEP Business Units.
The table shows that 22% of the total charges to AEP Texas were billed to only AEP Texas Business Units.

<table>
<thead>
<tr>
<th>Allocation Factor</th>
<th>(a) Directly Billed to AEP Texas</th>
<th>(b) Allocated to AEP Texas</th>
<th>Total by Allocation Factor</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>06 - Number of Commercial Customers</td>
<td>131,655</td>
<td>131,655</td>
<td>0 2%</td>
<td></td>
</tr>
<tr>
<td>08 - Number of Electric Retail Cust</td>
<td>8,935,739</td>
<td>8,935,739</td>
<td>13 5%</td>
<td></td>
</tr>
<tr>
<td>09 - Number of Employees</td>
<td>5,018,789</td>
<td>5,018,789</td>
<td>7 6%</td>
<td></td>
</tr>
<tr>
<td>11 - Number of GL Transactions</td>
<td>574,872</td>
<td>574,872</td>
<td>0 9%</td>
<td></td>
</tr>
<tr>
<td>16 - Number of Phone Center Calls</td>
<td>1,194,797</td>
<td>1,194,797</td>
<td>1 8%</td>
<td></td>
</tr>
<tr>
<td>17 - Number of Purchase Orders</td>
<td>141,624</td>
<td>141,624</td>
<td>0 2%</td>
<td></td>
</tr>
<tr>
<td>26 - Number of Stores Transactions</td>
<td>207,966</td>
<td>207,966</td>
<td>0 3%</td>
<td></td>
</tr>
<tr>
<td>27 - Number of Telephones</td>
<td>415,806</td>
<td>415,806</td>
<td>0 6%</td>
<td></td>
</tr>
<tr>
<td>28 - Number of Trans Pole Miles</td>
<td>1,933,179</td>
<td>1,933,179</td>
<td>2 9%</td>
<td></td>
</tr>
<tr>
<td>31 - Number of Vehicles</td>
<td>5,529</td>
<td>5,529</td>
<td>0 0%</td>
<td></td>
</tr>
<tr>
<td>32 - Number of Vendor Invoice Pay</td>
<td>72,538</td>
<td>72,538</td>
<td>-0 1%</td>
<td></td>
</tr>
<tr>
<td>33 - Number of Workstations</td>
<td>3,665,490</td>
<td>3,665,490</td>
<td>5 5%</td>
<td></td>
</tr>
<tr>
<td>37 - AEPSC Past 3 Months Total Bill</td>
<td>(761,426)</td>
<td>(761,426)</td>
<td>-1 1%</td>
<td></td>
</tr>
<tr>
<td>39 - 100% to One Company</td>
<td>14,923,839</td>
<td>14,923,839</td>
<td>22 5%</td>
<td></td>
</tr>
<tr>
<td>40 - Equal Share Ratio</td>
<td>5,236</td>
<td>5,236</td>
<td>0 0%</td>
<td></td>
</tr>
<tr>
<td>44 - Level of Const-Distribution</td>
<td>87,816</td>
<td>87,816</td>
<td>0 1%</td>
<td></td>
</tr>
<tr>
<td>46 - Level of Const-Transmission</td>
<td>414,554</td>
<td>414,554</td>
<td>0 0%</td>
<td></td>
</tr>
<tr>
<td>58 - Total Assets</td>
<td>26,797,905</td>
<td>26,797,905</td>
<td>40 4%</td>
<td></td>
</tr>
<tr>
<td>60 - AEPSC Bill less Indir and Int</td>
<td>193,396</td>
<td>193,440</td>
<td>0 3%</td>
<td></td>
</tr>
<tr>
<td>61 - Total Fixed Assets</td>
<td>1,504,169</td>
<td>1,504,169</td>
<td>3 3%</td>
<td></td>
</tr>
<tr>
<td>63 - Total Gross Utility Plant</td>
<td>612,953</td>
<td>612,953</td>
<td>9 9%</td>
<td></td>
</tr>
<tr>
<td>67 - Number of Banking Transactions</td>
<td>136,543</td>
<td>136,543</td>
<td>0 2%</td>
<td></td>
</tr>
<tr>
<td>70 - No Nonelectric OAR Invoices</td>
<td>247,224</td>
<td>247,224</td>
<td>0 4%</td>
<td></td>
</tr>
<tr>
<td>Total Included in Cost of Service by Allocation Factor</td>
<td>14,923,839</td>
<td>$1,391,278</td>
<td>$66,315,117</td>
<td>100 0%</td>
</tr>
<tr>
<td>22%</td>
<td>78%</td>
<td>100%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pre-formed not applied by Allocation Factor</td>
<td>1,466,650</td>
<td>1,466,650</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Included in Cost of Service</td>
<td>$16,390,489</td>
<td>$1,391,278</td>
<td>$67,781,767</td>
<td></td>
</tr>
</tbody>
</table>

Source: W/P Frantz - 2A

3. Work Order/Activity Code (What Service to Bill)

Q. WHAT IS A WORK ORDER AND HOW DOES IT RELATE TO THE BILLING PROCESS?

A. Generally speaking, a work order is an electronic file used as a means to accumulate like charges into one grouping. The work order is the means to bring the benefiting location, allocation factor, and purpose for the work into one billable unit.
Q. PLEASE DESCRIBE HOW A WORK ORDER IS ESTABLISHED.

A. A work order can be requested by any employee who wishes to track costs for a specific project. The employee who requests a work order provides information to the AEPSC Accounting department concerning the nature of the work to be performed and the Business Units who will be the beneficiaries of the service. The request is reviewed and approved by the manager of the requesting employee.

Using this information, the AEPSC Accounting Department assigns the Benefiting Location, which determines who will be billed for the work, as I described earlier in this testimony, and an allocation factor. The allocation factor is chosen to reflect the characteristic that most clearly drives the cost of the service—for example, number of customers or total assets. The majority of the AEPSC work orders receive final approval from my department. Some work orders are initiated through a field-based system.

Q. WHAT OTHER INFORMATION IS ACCUMULATED WITH THE WORK ORDER?

A. Accounting information such as the department which made the charge, an activity code that describes the type of service provided, the FERC account associated with the charge, a cost component which indicates the category of cost incurred (labor, etc.), and other codes used for reporting and analysis are captured in the accounting records. Accounting within each work order is in accordance with the FERC Uniform System of Accounts. These additional elements are further described in Schedule V-K-9.

Q. YOU MENTION "ACTIVITY CODES." PLEASE EXPLAIN WHAT YOU MEAN BY THAT.
A. Activity codes are used in conjunction with work orders and are another means of making the accounting selection process for employees more understandable and dynamic.

When an employee makes a charge, they need only select the work order as described above, and an activity code, to accomplish the billing. The activity code indicates, for all work orders, the business activity performed. This facilitates cost analyses. For certain work orders, the activity code is linked to the allocation factor that will be used to allocate the charges to the affiliates.

Employees choose the appropriate activity using a hierarchal listing of activities which is available on-line to all employees in the company. This hierarchy allows “drill-down” into the activities that cover each area. For example, a screen-shot of the activities available for “Managing the Accounting & Finance” processes shows that nineteen activities are available in these areas:
<table>
<thead>
<tr>
<th>Activity</th>
<th>By Process Group (Active)</th>
<th>ABM Activity</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>MANAGE &amp; SUPPORT THE BUSINESS Manage Accounting &amp; Finance</td>
<td>Manage Accounting &amp; Finance</td>
<td>Manage Financial Resources</td>
<td>Manage Financial Resources</td>
</tr>
<tr>
<td>MANAGE &amp; SUPPORT THE BUSINESS Manage Accounting &amp; Finance</td>
<td>Manage Accounting &amp; Finance</td>
<td>Prepare, Approve &amp; Review Budgets</td>
<td>Prepare, Approve &amp; Review Budgets</td>
</tr>
<tr>
<td>MANAGE &amp; SUPPORT THE BUSINESS Manage Accounting &amp; Finance</td>
<td>Manage Accounting &amp; Finance</td>
<td>Develop, Monitor &amp; Analyze Budgets</td>
<td>Develop, Monitor &amp; Analyze Budgets</td>
</tr>
</tbody>
</table>

By accessing this on-line listing, employees can further review the details behind each activity code, to make sure that the activity is appropriate for the service they are providing. Using an activity from Table 6 above, Activity 334 - Maintain General Ledger, an employee can drill-down further to see more details about that activity, as is seen in the screen-shot in Table 7 below:
### Table 7

**Screen-shot of Activity 334 — Maintain General Ledger**

<table>
<thead>
<tr>
<th>Process Group *</th>
<th>MANAGE &amp; SUPPORT THE BUSINESS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Major Process *</td>
<td>Manage Accounting &amp; Finance</td>
</tr>
<tr>
<td>Activity</td>
<td>334-Maintain General Ledger</td>
</tr>
<tr>
<td>Activity Number *</td>
<td>334</td>
</tr>
<tr>
<td>Activity Name *</td>
<td>Maintain General Ledger</td>
</tr>
</tbody>
</table>

**Activity Description**

This activity includes reconciling and balancing all ledgers. Includes both labor and systems costs for ledger maintenance.

**Major Tasks**

- Setup and amortize overhead and prepayments
- Record entries to the ledgers
- Reconcile and balance of ledgers
- Review completed ledgers for accuracy
- Prepare and input journal entries
- Close the financial books
- Invoicing power sellings and recording of system pool and purchases power transactions
- Record Prepaid Insurance
- Maintain accounts and work order validation files
- Prepare annual statements
- Record O&O activities
- Maintain material management (other than fuel and leased asset) accounting
- Prepare file maintenance (Account Master File, PMS, AEPSC Work Order system)

**Suggested FERC Accounts * **

- 920-923

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The screen-shot shows that an employee can further access information about major tasks that are appropriate to charge using the activity, suggested FERC account usage, and the AEPSC allocation factor that will be used to bill the cost.

**Q. WHAT TYPES OF QUALITY ASSURANCE PRACTICES ARE EMPLOYED IN THE INITIATION OF A WORK ORDER?**
A. When a work order is first requested, both the selection of the benefiting location and
the assignment of the allocation factor are reviewed and approved by a manager with
supervisory responsibility for the work to be performed to ensure that it is properly
assigned. In addition, my department is responsible for approving most AEPSC work
order requests, and we review and approve the benefiting location and allocation factor
prior to the work order being activated by the AEPSC Accounting Department.

Q. DO THE SAME AEPSC BILLING PROCESSES WHICH APPLY TO EXPENSES
ALSO APPLY TO CAPITAL COSTS BILLED BY AEPSC, WHICH ARE SHOWN
ON SCHEDULE V-K-5?

A. Yes, AEPSC uses one billing process, work order system and system of controls, all
described in Section III of this testimony, whether the cost billed is expense or capital.

Q. PLEASE DISCUSS THE DATA PROVIDED ON SCHEDULE V-K-5.

A. The schedule shows each capital work order billed by AEPSC to AEP Texas since
December 31, 2014. The schedule shows the function incurring the cost, the work
order title and amount billed, and includes a footnoted description of the more
significant projects included in the period.

Q. HOW ARE THE AFFILIATE CAPITAL PROJECTS, SHOWN ON SCHEDULE
V-K-5, BILLED TO AEP TEXAS?

A. The capital projects are billed using the same set of allocation factors that are used for
all other AEPSC work orders, as provided on Schedule V-K-11. When a capital work
order is initiated, an allocation factor and a benefiting location are assigned to allocate
the costs to the companies who benefit from the work. Because capital construction is,
by nature, usually associated with a specific company and location, the majority of the
capital work orders are directly billed to the affiliate for whom the specific work is provided. The overhead and capitalized software work orders, however, are generally assigned to affiliates through an allocation because they represent costs for a shared product.

The generation, transmission and distribution capital overhead work orders capture the costs for AEPSC planning, designing, construction management, and administrative and general overheads, and they are allocated using factors based upon construction levels. These factors calculate the Company's level of construction, as compared to the same construction for other affiliates, and allocate the overheads accordingly. This ensures that the companies who are constructing routine generation, transmission and distribution projects are charged for the support costs associated with administering the construction program. These construction overheads are then allocated by AEP Texas or other AEP affiliates to their construction projects, in accordance with the FERC Electric Plant Instructions.

Capital software charges billed to AEP Texas since December 2014 include costs for the conversion, implementation, upgrade and replacement of various software applications. Capital software work orders are billed using various allocation factors, depending upon the nature of the software. As with the expense allocations, the allocation factor assigned to each of the capital software work orders is assigned to most closely match the underlying cost driver, resulting in a reasonable approximation of the cost to provide that service.

Q. HOW DOES THE WORK ORDER SYSTEM ENSURE THAT AEPSC'S CHARGES TO AEP TEXAS ARE NO HIGHER THAN THE CHARGES TO OTHER
AFFILIATES FOR THE SAME OR SIMILAR SERVICES, AND THAT THE CHARGES REASONABLY APPROXIMATE THE ACTUAL COST OF PROVIDING THE SERVICE TO AEP TEXAS?

A. The AEPSC work order system was designed for the express purpose of meeting the Securities and Exchange Commission (SEC)/FERC requirements to fairly allocate common charges among AEP affiliates, and to do so at cost. By using a work order system, the expenses for specific projects are identified and the work orders are assigned specific and approved benefiting locations and allocation factors. Common costs are allocated based on the factor that best matches the charge with the cost driver related to the service, and that same factor is applied to all companies in proportion to the benefit they received from the service. In this way, AEP Texas and every other affiliate included in the benefiting location receiving a service is charged the same unit price—that is, its appropriate share of the actual cost of the service. Accordingly, consistent with the requirements of PURA § 36.058(c)(2), the price charged to AEP Texas for the service (AEPSC’s actual cost) is no higher than the price charged to the other affiliates receiving the service (AEPSC’s actual cost).

The costs for services benefiting only one company are directly assigned and are billed 100% to that company by the employee performing the service. Again, the price for all direct billings—actual cost—is the same for AEP Texas and all other affiliates receiving direct billings.

B. Charges From Other Affiliates

Q. DID AEP TEXAS HAVE TRANSACTIONS WITH ANY AEP AFFILIATES OTHER THAN AEPSC?
A. Yes, AEP Texas had transactions with various affiliate companies, in the amount of $1,084,803, as shown on Schedule V-K-1. The charges from affiliates other than AEPSC are shown in the table below:

<table>
<thead>
<tr>
<th>From Affiliate:</th>
<th>Convenience Payments</th>
<th>Service Payments</th>
<th>Grand Total</th>
<th>% Of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ohio Power Co.</td>
<td>$81</td>
<td>$460</td>
<td>$541</td>
<td>50%</td>
</tr>
<tr>
<td>Southwestern Electric Power Company</td>
<td>32</td>
<td>248</td>
<td>280</td>
<td>26%</td>
</tr>
<tr>
<td>Public Service Company of Oklahoma</td>
<td>8</td>
<td>148</td>
<td>156</td>
<td>14%</td>
</tr>
<tr>
<td>Appalachian Power Company</td>
<td>110</td>
<td>94</td>
<td>204</td>
<td>19%</td>
</tr>
<tr>
<td>All other (5) affiliates</td>
<td>(145)</td>
<td>49</td>
<td>(96)</td>
<td>-9%</td>
</tr>
<tr>
<td>Total</td>
<td>$86</td>
<td>$999</td>
<td>$1,085</td>
<td>100%</td>
</tr>
</tbody>
</table>

*Source: Schedule V-K-1*

Test year payments by AEP Texas to affiliate companies (other than AEPSC) generally fall into two categories.

The first category is convenience payments, which are pass-through billings from third parties. In those situations, the service to AEP Texas is not provided by an affiliate; however, the affiliate receives an invoice, the cost of which should be borne by more than one company. The affiliate makes a payment to the vendor on behalf of all affected affiliates and bills the other affiliates for their share. For example, an invoice for services rendered related to a distribution matter is addressed to Ohio Power Company but was incurred on behalf of all AEP distribution companies. Ohio Power received the invoice and made the payment, and then it charged the appropriate percentage of the invoice to AEP Texas and other affiliates. This payment was a joint
payment, made by Ohio Power as a "convenience" for all parties on the invoice. AEP
Texas would then reimburse Ohio Power for its share of the invoice. Similarly, there
are instances where AEP Texas makes convenience payments on behalf of other AEP
operating companies and bills the other operating companies for their shares of the bill.

The second category is service payments, where the affiliate provides a service,
such as storm assistance. Another example of this type of service billing is where AEP
Texas may have a critical maintenance or repair need, and another affiliated company
has the parts or expertise to perform that task. In those cases, AEP Texas purchases
the parts or services from the affiliate at their cost in order to expedite the repair. This
type of cost is payment for parts or services rendered much like the billings AEP Texas
receives from AEPSC.

Q. HOW ARE INTER-COMPANY TRANSACTIONS BILLED BETWEEN THE
VARIOUS OPERATING COMPANIES?

A. Transactions are directly billed from one operating company to another, or they are
billed to the appropriate operating company utilizing a similar billing process as that
used by AEPSC. As with AEPSC, expenditures are charged to work orders and are
billed to the business unit benefiting from the service. Costs benefiting only one
business unit are directly billed, while costs that benefit more than business unit are
allocated. The result is that AEP Texas is billed by the operating company supplying
the service an amount based on the actual cost to provide that service, with no profit
added.
IV. REASONABLENESS AND NECESSITY OF CLASSES OF SERVICE

Q. WHAT IS THE PURPOSE OF THIS SECTION OF YOUR TESTIMONY?

A. I will describe and address the nature and necessity of the following four classes of services that were provided to AEP Texas during the test year, and the reasonableness of the associated costs:

   a. **Chief Financial Officer** - $5,388,646, including:
      - Corporate Accounting
      - Corporate Planning and Budgeting
      - Treasury and Investor Relations
      - Risk and Strategic Initiatives
      - Other Finance Services
   
   b. **Chief Executive Officer** - $1,134,316, including:
      - Internal Audit
      - Other Chief Executive Officer
   
   c. **Internal Support** - $1,466,206
   
   d. **AEPSC Incentives** - $7,383,800

A. Chief Financial Officer Class of Service - $5,388,646

Q. ARE YOU SUPPORTING THE ENTIRE CHIEF FINANCIAL OFFICER CLASS OF SERVICE?

A. No. I am supporting the costs for the departments listed above. One other department under the Chief Financial Officer (CFO)- Supply Chain, Fleet & Procurement- is supported by Jonathon Burns.

Q. WHAT ARE AEP TEXAS’ ADJUSTED TEST YEAR COSTS PER EXHIBIT BJF-8 FOR CHIEF FINANCIAL OFFICER SERVICES PROVIDED BY AEPSC?
A. The Chief Financial Officer adjusted test year costs for AEP Texas are $5,388,646. These services, shown on EXHIBIT BJF-8 by department within each class, include the Corporate Accounting, Corporate Planning and Budgeting, Treasury and Investor Relations, Risk and Strategic Initiatives, and Other Finance Services.

Q. HOW DO THESE COSTS BREAK DOWN BY MAJOR AREA?

A. The major service categories and the amounts billed to AEP Texas are as follows:

<table>
<thead>
<tr>
<th>Chief Financial Officer Class of Service</th>
<th>Amount in AEP TEXAS Cost of Service</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate Accounting</td>
<td>$2,858,813</td>
</tr>
<tr>
<td>Corporate Planning and Budgeting</td>
<td>803,971</td>
</tr>
<tr>
<td>Treasury and Investor Relations</td>
<td>1,062,163</td>
</tr>
<tr>
<td>Risk and Strategic Initiatives</td>
<td>627,418</td>
</tr>
<tr>
<td>Other Finance Services</td>
<td>36,281</td>
</tr>
<tr>
<td><strong>Total Chief Financial Officer</strong></td>
<td><strong>$5,388,646</strong></td>
</tr>
</tbody>
</table>

*Source: EXHIBIT BJF-8*

I will discuss all of these categories of CFO services in more detail later in my testimony. Before that discussion, however, I will discuss budget and headcount trends that support the reasonableness of the CFO costs.

Q. WHAT ARE THE MAJOR COMPONENTS OF THE CFO CLASS OF SERVICE COSTS?
A. The CFO class of service costs includes the following categories:

Table 10
Components of Chief Financial Officer Class by Cost Category

<table>
<thead>
<tr>
<th></th>
<th>Labor</th>
<th>Outside Services</th>
<th>Other</th>
<th>Grand Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amount</td>
<td>$4,927,085</td>
<td>$319,738</td>
<td>$141,823</td>
<td>$5,388,646</td>
</tr>
<tr>
<td>% of Total</td>
<td>91%</td>
<td>6%</td>
<td>3%</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: W/P Frantz – 7B

The largest single component of the costs in the CFO class is labor, which makes up approximately 91% of the total CFO class of service. This is because the CFO group is primarily a service-based organization and has few costs that are not employee-related. The testimony of Mr. Carlin and Mr. Cooper demonstrates that the labor and benefit costs incurred by AEPSC are reasonable and market competitive.

Q. WHAT IS THE TREND IN HEADCOUNT FOR CHIEF FINANCIAL OFFICER?

A. As shown in the table below, headcount for CFO has decreased over 13% since 2015. Even with the decrease in headcount, CFO has continued to provide the same level of service to AEP Texas and the other affiliates.

Table 11
Chief Financial Officer Headcount Trends

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>Test Year End</th>
</tr>
</thead>
<tbody>
<tr>
<td>Headcount</td>
<td>377</td>
<td>378</td>
<td>377</td>
<td>326</td>
</tr>
</tbody>
</table>

Source: W/P Frantz - 8

Q. PLEASE DESCRIBE HOW THE BUDGETING PROCESS IS USED BY THE GROUPS IN THE CFO CLASS TO MONITOR COSTS.

A. Like all AEPSC departments, the CFO division departments are required to prepare a budget annually for approval by AEP management, and each month they are required to
explain material variances from the budget. Performance against the pre-established budgets is an element of all CFO employees' incentive performance payment and is included in the performance targets for CFO management. This budget versus actual analysis is reviewed on a "pre-billed" basis, so the following table reflects all of the CFO budget (excluding incentives) and not just the portion that was billed to AEP Texas, for the past two years and the test year.

Table 12
Chief Financial Officer
Budget vs. Actual Trends (in millions)

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2017</th>
<th>Test Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Budget O&amp;M Expenditures</td>
<td>$ 50.9</td>
<td>$ 53.4</td>
<td>$ 50.3</td>
</tr>
<tr>
<td>Actual O&amp;M Expenditures</td>
<td>$ 46.5</td>
<td>$ 38.6</td>
<td>$ 53.3</td>
</tr>
<tr>
<td>Over (Under) Budget</td>
<td>$(4.4)</td>
<td>$(14.8)</td>
<td>$ 3.0</td>
</tr>
<tr>
<td>Adjustments to Actual O&amp;M Exp:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>$ 2.3</td>
<td>$ 14.9</td>
<td>$(0.3)</td>
</tr>
<tr>
<td>Adjusted Over (Under) Budget</td>
<td>$(2.1)</td>
<td>$ 0.1</td>
<td>$ 2.7</td>
</tr>
</tbody>
</table>

Note: Does not include CFO classes supported by other Company witnesses.

The CFO's actual O&M expenditures for each period have been consistently comparable to budget. The adjustments to actual O&M expense amounts relate to items that are not included in the budget. As a "back-office" support area, there is continual pressure to find cost savings and justify spending to assure that the services are provided at the lowest cost. Additionally, employee vacancies are carefully analyzed to ensure that all options are reviewed to eliminate the position if possible. The trends in these O&M costs are discussed in more detail below.
Q. PLEASE DESCRIBE THE CORPORATE ACCOUNTING SERVICES PROVIDED TO AEP TEXAS.

A. As shown in Table 9 above, AEP Texas was billed $2,858,813 during the test year for corporate accounting services. I have divided the accounting services into four categories that reflect the major departments providing the services to AEP Texas:

- Accounting and Regulatory Services - $1,369,597
- Financial and Management Reporting - $259,568
- Tax - $730,672
- Accounting Transaction Services - $498,976

Each category is discussed below.

Accounting and Regulatory Services - $1,369,597

Q. PLEASE DESCRIBE THE ACCOUNTING AND REGULATORY SERVICES PROVIDED TO AEP TEXAS.

A. AEP Texas does not have a stand-alone accounting department—accounting for AEP Texas is performed primarily in Tulsa, Oklahoma, with some services being provided from Columbus and Canton, Ohio. General accounting services provided to AEP Texas include maintaining the books and records of AEP Texas, preparing all monthly entries to the ledgers, and developing and maintaining the accounting and business systems that support AEP Texas. Additional accounting services provided to AEP Texas include ensuring authorization and compliance with corporate accounting policy, and monitoring SEC and Financial Accounting Standards Board rulemaking activities.

Also included in the accounting services provided are regulatory accounting services such as preparing the schedules for state filing requirements for rate cases and...
other commission proceedings, as well as providing the witnesses in the areas of
counting, depreciation, affiliate transactions, benefit accounting, and other specialty
areas.

Q. WHAT IS THE TREND IN COSTS BILLED TO AEP TEXAS BY THE
ACCOUNTING AND REGULATORY SERVICES DEPARTMENT?

A. As shown in the table below, the accounting and regulatory services provided to AEP
Texas have increased by $62,674 from 2015 to the current test year, indicating a very
stable pattern of O&M costs over time.

| Table 13 |
| Accounting and Regulatory Services Cost Trends |
| As Billed to AEP Texas |
| | 2015 | 2016 | 2017 | Test Year |
| Labor Costs | $1,267,545 | $1,082,188 | $1,061,293 | $1,205,308 |
| Outside Services | 6,223 | 16,469 | 97,818 | 77,011 |
| Other Costs | 33,155 | 37,384 | 20,972 | 87,278 |
| Total Services Provided | $1,306,923 | $1,136,041 | $1,180,083 | $1,369,597 |

Q. PLEASE DISCUSS THE REASONABLENESS OF AFFILIATE EXPENSES FOR
ACCOUNTING AND REGULATORY SERVICES AND THE BENEFITS THAT AEP
TEXAS DERIVES FROM PROVISION OF THESE SERVICES BY AEPSC.

A. AEPSC provides accounting to AEP Texas on a centralized basis. Specialized accounting
expertise and knowledge concerning generally accepted accounting principles, SEC and
FERC rules and filing requirements, as well as specific state knowledge and requirements,
is maintained and provided through one department. Providing this expertise avoids
redundancy in the staffs and ensures a consistent approach to complying with regulatory
requirements. Additionally, AEPSC minimizes the use of outside advisors by maintaining
in-house experts in accounting and tax who are shared by all affiliate companies and
manages common financial systems to avoid the expense of several diverse systems used
by each company.

Financial and Management Reporting - $259,568

Q. PLEASE DESCRIBE THE FINANCIAL AND MANAGEMENT REPORTING
SERVICES PROVIDED TO AEP TEXAS.

A. All external financial reporting for AEP Texas is done through a centralized financial
reporting organization at AEPSC. The centralized organization prepares SEC and PUC
financial reports, prepares and files consolidated financial statements, and monitors
changes in financial reporting requirements. Also included in the financial and
management reporting services provided are monthly variance reports, which are
produced to assist AEPSC and the utility companies in the analysis of earnings and trends.

Q. WHAT IS THE TREND IN COSTS BILLED TO AEP TEXAS BY THE FINANCIAL
AND MANAGEMENT REPORTING SERVICES DEPARTMENT?

A. As shown in the table below, the financial and management reporting services provided
to AEP Texas have increased by $60,902 since 2015.

Table 14
Financial and Management Reporting Services Cost Trends
As Billed to AEP Texas

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>Test Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Labor Costs</td>
<td>$187,627</td>
<td>$207,452</td>
<td>$222,821</td>
<td>$244,937</td>
</tr>
<tr>
<td>Outside Services</td>
<td>10,071</td>
<td>12,857</td>
<td>12,742</td>
<td>13,313</td>
</tr>
<tr>
<td>Other Costs</td>
<td>968</td>
<td>1,051</td>
<td>934</td>
<td>1,318</td>
</tr>
<tr>
<td><strong>Total Services Provided</strong></td>
<td><strong>$198,666</strong></td>
<td><strong>$221,360</strong></td>
<td><strong>$236,497</strong></td>
<td><strong>$259,568</strong></td>
</tr>
</tbody>
</table>

The increase is mainly related to increased SEC support activities. As discussed
below, a primary service provided by this department is the filing of all required SEC
reports. AEP Texas Inc. became an SEC registrant as of 2017, in order to take advantage of broader financing opportunities; therefore, AEP Texas receives additional support costs from this department.

Q. PLEASE DISCUSS THE REASONABLENESS OF AFFILIATE EXPENSES FOR FINANCIAL AND MANAGEMENT REPORTING SERVICES AND THE BENEFITS THAT AEP TEXAS DERIVES FROM PROVISION OF THESE SERVICES BY AEPSC.

A. AEPSC provides specialized knowledge of the SEC and FERC rules and filing requirements, as well as specific state knowledge and requirements. Providing this expertise avoids redundancy in the staffs and ensures a consistent approach to complying with reporting requirements. Additionally, AEP files a combined SEC Form 10-K and Form 10-Q, and a combined financial reporting department is able to share knowledge and maintain consistency between company filings.

Of great benefit to AEP Texas is the reporting department’s compliance with the Sarbanes-Oxley Act (Sarbanes). This department manages the additional Sarbanes requirements for reporting, such as upper management and Board of Directors reviews and certifications of all AEP Texas required reports. Having one department keep current with the changing financial reporting requirements, and managing the requirements of the Sarbanes, allows AEP Texas to receive financial and management reports on a timely basis, with full assurance of the accuracy and review of those reports.
Q. PLEASE DESCRIBE THE TAX SERVICES PROVIDED TO AEP TEXAS.

A. Tax research and consultation services are provided to AEP Texas in both state and federal tax areas, including the preparation and filing of all AEP Texas income tax returns and the administration of Internal Revenue Service, state and local examinations, protests and appeals. The AEPSC Tax department also prepares and files all state and local tax returns, such as gross receipts, franchise, property and sales tax. The Tax department further provides federal and state tax planning and payment forecasting and the monitoring of federal and state tax legislation and rulemaking activities.

Q. WHAT IS THE TREND IN COSTS BILLED TO AEP TEXAS BY THE TAX DEPARTMENT?

A. As shown in the table below, the tax services provided to AEP Texas have increased by $232,642 since 2015.

<table>
<thead>
<tr>
<th>Table 15</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Tax Services Cost Trends</strong></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Labor Costs</td>
</tr>
<tr>
<td>Outside Services</td>
</tr>
<tr>
<td>Other Costs</td>
</tr>
<tr>
<td><strong>Total Services Provided</strong></td>
</tr>
</tbody>
</table>

The increase is primarily related to outside services associated with tax consultation, auditing and tax form preparation. These outside services are allocated to the AEP affiliates based on the relative size of the company using the total assets allocation factor. Therefore, the growth in AEP Texas assets has increased the amount of costs allocated by this group to AEP Texas.

Q. PLEASE DISCUSS THE REASONABLENESS OF AFFILIATE EXPENSES FOR TAX SERVICES AND THE BENEFITS THAT AEP TEXAS DERIVES FROM PROVISION OF THESE SERVICES BY A CENTRALIZED SERVICE COMPANY.
A. Filing a consolidated federal income tax return, as the AEP system does, requires a coordinated approach due to the consistency required among all subsidiaries. AEPSC provides economies of scale in matters requiring tax research, planning and compliance. AEPSC's capabilities avoid redundancy in staffs at the subsidiaries and minimize the need for multiple extensive tax libraries and tax compliance software that would add to the cost of the service. AEPSC provides consultation in state and local tax administration during audits, legislative and regulatory matters.

Accounting Transaction Services - $498,976

Q. PLEASE DESCRIBE THE ACCOUNTING TRANSACTION SERVICES PROVIDED TO AEP TEXAS.

A. The Accounting Transaction Services groups are generally those which process high volumes of accounting information, such as customer bill payments and accounts payable invoices. Also included in the accounting processing services provided are accounts receivable, property accounting, property leasing accounting, and payroll allocations.

Q. WHAT IS THE TREND IN COSTS BILLED TO AEP TEXAS BY THE ACCOUNTING TRANSACTION SERVICES DEPARTMENT?

A. As shown in the table below, the accounting and transaction services provided to AEP Texas have remained flat since 2015.

| Table 16
| Accounting Transaction Services Cost Trends
| As Billed to AEP Texas

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>Test Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Labor Costs</td>
<td>$458,647</td>
<td>$435,083</td>
<td>$438,277</td>
<td>$472,244</td>
</tr>
<tr>
<td>Outside Services</td>
<td>27,053</td>
<td>22,658</td>
<td>19,906</td>
<td>21,003</td>
</tr>
<tr>
<td>Other Costs</td>
<td>11,085</td>
<td>9,016</td>
<td>5,995</td>
<td>5,729</td>
</tr>
<tr>
<td>Total Services</td>
<td>$496,785</td>
<td>$466,757</td>
<td>$464,178</td>
<td>$498,976</td>
</tr>
</tbody>
</table>
Q. PLEASE DISCUSS THE REASONABLENESS OF AFFILIATE EXPENSES FOR ACCOUNTING TRANSACTION SERVICES AND THE BENEFITS THAT AEP TEXAS DERIVES FROM PROVISION OF THESE SERVICES BY AEPSC.

A. AEPSC provides these centralized services to AEP Texas and all other AEP companies primarily from the AEPSC service center in Canton, Ohio. AEPSC uses common accounting systems, such as accounts payable, asset management, accounts receivable, and other systems to process the transactions for AEP companies. A central location for high-volume transaction processing allows the company to use one staff, provide training in one location, provide storage and filing in one location, use one bill insert process and machinery, and automated posting systems. Prior to the centralization of many of these types of services at AEPSC, these systems and the machinery were owned and operated by each operating company, resulting in more utility assets and funds being used for the services that are shared today. The sharing of one data imaging system for the storage of invoices with other affiliates by its very nature results in savings over AEP Texas owning and maintaining that same system itself.

Corporate Planning and Budgeting - $803,971

Q. PLEASE DESCRIBE THE CORPORATE PLANNING AND BUDGETING SERVICES PROVIDED TO AEP TEXAS.

A. As shown in Table 9 above, AEP Texas was billed $803,971 during the test year for corporate planning and budgeting.

Planning and budgeting provides long and short range planning services (including services related to forecasting), strategic planning and analyses, and budget variance analyses. Financial planning provides support for a computerized financial
model used to develop long-term projections and other resource planning. The financial forecasts are provided to rating agencies to assist in the evaluation of credit quality and are distributed to security analysts. The forecasts also provide data needed for regulatory reviews and other filings. Additionally, the Planning and Budgeting group manages and participates in various process improvement projects.

Q. WHAT IS THE TREND IN COSTS BILLED TO AEP TEXAS BY THE CORPORATE PLANNING AND BUDGETING DEPARTMENT?

A. As shown in the table below, the corporate planning and budgeting services provided to AEP Texas have remained relatively flat since 2015.

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>Test Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Labor Costs</td>
<td>$721,842</td>
<td>$681,550</td>
<td>$681,655</td>
<td>$738,018</td>
</tr>
<tr>
<td>Outside Services</td>
<td>40,091</td>
<td>22,620</td>
<td>47,035</td>
<td>58,691</td>
</tr>
<tr>
<td>Other Costs</td>
<td>14,715</td>
<td>21,526</td>
<td>8,917</td>
<td>7,262</td>
</tr>
<tr>
<td>Total Services</td>
<td>$776,648</td>
<td>$725,696</td>
<td>$737,607</td>
<td>$803,971</td>
</tr>
</tbody>
</table>

Q. PLEASE DISCUSS THE REASONABLENESS OF AFFILIATE EXPENSES FOR CORPORATE PLANNING AND BUDGETING AND THE BENEFITS THAT AEP TEXAS DERIVES FROM PROVISION OF THESE SERVICES BY A CENTRALIZED SERVICE COMPANY.

A. The benefits of a combined financial planning and budgeting service include the use of standard software packages, which permits, among other things, the timely and consistent development of consolidated AEP projections used for equity analysts. These projections facilitate the AEP system companies’ access to capital to meet operating company growth.
requirements, and the use of a common system improves the quality and consistency of
the information provided to the investment community.

Other standard forecasting systems for revenues and customers allow load
forecasting to be performed more economically and with fewer people than if each utility
company was required to maintain its own software and to have experts run the models.
Forecasting for revenues, load, or the expenditure cycles is a proprietary process with an
unpredictable workload, so the use of outside consultants could be expensive.

Treasury and Investor Relations Services - $1,062,163

Q. PLEASE DESCRIBE THE TREASURY AND INVESTOR RELATIONS SERVICES
PROVIDED TO AEP TEXAS.

A. As shown in Table 9 above, AEP Texas was billed $1,062,163 during the test year for
treasury and investor relations services. AEPSC borrows funds in order to pay employees
and purchase operating items. Since there is a lag of up to one to two months for
reimbursement of expenditures from the affiliate companies, AEPSC bills its interest cost
to the affiliate companies as a component of the service it provides, as was approved by
the SEC under PUHCA.

The Treasury department further provides services to AEP Texas in the areas of
cash management, corporate financing, treasury/investment management and investor
relations.

Cash management ($794,294) provides service related to the operation of the
corporate borrowing program. Of this amount, approximately $622 thousand represents
the AEP Texas allocation of AEPSC interest expense incurred as a component of
AEPSC’s normal working capital. The corporate borrowing program is the method by
which AEP Texas and other AEP affiliates manage their day-to-day cash needs. AEP Texas can be either invested in, or borrowed from, the corporate program. The corporate borrowing program is supported by a series of credit lines that allows AEP to borrow funds to provide operating cash to the companies or to invest excess cash. This ensures that the use of or investment of cash assets is maximized daily.

Corporate financing services ($139,336) are provided by the AEPSC Corporate Finance staff within the Treasury department. This staff conducts all financing activity for AEP Texas and the other AEP companies. This financing activity includes the issuance of debt, equity or hybrid securities, as well as coordinating project financings. It also includes all activities related to financings such as maintaining relationships with financial institutions and rating agencies, negotiating the business terms of financing agreements, providing documentation required by financial institutions and governmental agencies such as the SEC and state regulatory agencies, ongoing monitoring of capital markets, financial modeling, analyzing financing alternatives, preparing and filing with the SEC documents required by the Securities Act of 1933 and the Securities Exchange Act of 1934.

Treasury/Investment management services ($49,886) provides overall management of the treasury areas, including managing the investments for the AEP system’s employee benefit plans. These plans, including the retirement savings plan, cash balance retirement plan, employees’ life insurance plan and the disability income plan, have assets in external trust accounts. In addition, the Treasury staff keeps up to date on the regulatory requirements of the Department of Labor and the Internal
Revenue Service for employee benefit funds covered under the Employee Retirement Income Security Act.

Investor relations services ($78,647) provides present and potential investors and shareholders with an accurate portrayal of AEP Texas' financial performance and related financial data. Providing such information can have a positive impact on the utility's bond prices and common stock, and, consequently, on its cost of capital. The investor relations function is essential to attracting and maintaining investor capital. The Investor Relations department provides disclosure and dissemination of information about the Company through formal presentations, telephone conversations with investors and Wall Street analysts, and face-to-face meetings with investors.

Q. WHAT IS THE TREND IN COSTS BILLED TO AEP TEXAS BY THE TREASURY AND INVESTOR RELATIONS DEPARTMENT?

A. As shown in the table below, the treasury and investor relations services provided to AEP Texas have increased by $588,070 since 2015.

<table>
<thead>
<tr>
<th>Table 18</th>
<th>Treasury and Investor Relations Services Cost Trends</th>
</tr>
</thead>
<tbody>
<tr>
<td>As Billed to AEP Texas</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2015</td>
</tr>
<tr>
<td>Labor Costs</td>
<td>$325,088</td>
</tr>
<tr>
<td>Outside Services</td>
<td>12,718</td>
</tr>
<tr>
<td>Other Costs</td>
<td>136,287</td>
</tr>
<tr>
<td>Total Services Provided</td>
<td>$474,093</td>
</tr>
</tbody>
</table>

The increase is mainly related to the AEPSC interest expense billed to AEP Texas, which is incurred as a component of AEPSC's normal working capital, and the cost of borrowing has increased since 2015. This cost is allocated to the affiliates based on their
share of the AEPSC bill, and AEP Texas' share of the AEPSC bill has remained relatively
level over this time span.

Q. PLEASE DISCUSS THE REASONABLENESS OF AFFILIATE EXPENSES FOR
TREASURY SERVICES AND THE BENEFITS THAT AEP TEXAS DERIVES
FROM PROVISION OF THESE SERVICES BY A CENTRALIZED SERVICE
COMPANY.

A. Having a centralized treasury and banking group gives all AEP member companies
advantages of the high volumes generated by all companies, which results in the ability
to negotiate lower per unit costs for bank transaction processing. Having a "central"
relationship with the banking and finance communities can result in more competitive
financing arrangements and allows the AEP companies to better manage their cash
positions.

In terms of the investor relations group, American Electric Power Company,
Inc. is the publicly traded entity, and AEP in turn owns the equity shares of the utility
subsidiaries. Thus, there is no reason to have multiple shareholder or investor services
departments attempting to all service the same set of shareholders and investors.
Having a central department allows the staff to present a united story to the market on
AEP and AEP's subsidiaries.

Risk and Strategic Initiatives - $627,418

Q. WHAT ARE AEP TEXAS' ADJUSTED TEST YEAR COSTS FOR RISK AND
STRATEGIC INITIATIVES SERVICES PROVIDED BY AEPSC?

A. As shown in Table 9 above, AEP Texas was billed $627,418 during the test year for risk
and strategic initiatives services.
Q. PLEASE DESCRIBE THE RISK AND STRATEGIC INITIATIVES SERVICES THAT ARE PROVIDED TO AEP TEXAS BY AEPSC.

A. Risk and strategic initiatives services pertain to financial risk control and the provision of insurance services to affiliated companies.

Financial risk management services include developing and monitoring systems that track the level of financial risk inherent in company transactions and evaluating financial options.

Insurance services include the procurement of insurance programs to protect AEP and all of its operating companies and business units from the financial risk of accidental losses and administers the services necessary to support that task. These programs include but are not limited to property, workers’ compensation, casualty, and directors and officers insurance. Insurance services also include adjusting claims made against the company for third-party bodily injury and property damage and first-party property damage and recovery on claims from damage to AEP property by outside parties.

Q. WHAT IS THE TREND IN COSTS BILLED TO AEP TEXAS BY THE RISK AND STRATEGIC INITIATIVES DEPARTMENT?

A. As shown in the table below, the risk and strategic initiatives services provided to AEP Texas have increased by $137,556 since 2015.
Table 19
Risk and Strategic Initiatives Services Cost Trends
As Billed to AEP TEXAS

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>Test Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Labor Costs</td>
<td>$441,361</td>
<td>$484,334</td>
<td>$532,940</td>
<td>$566,839</td>
</tr>
<tr>
<td>Outside Services</td>
<td>24,304</td>
<td>16,490</td>
<td>34,907</td>
<td>50,462</td>
</tr>
<tr>
<td>Other Costs</td>
<td>24,197</td>
<td>11,553</td>
<td>16,185</td>
<td>10,117</td>
</tr>
<tr>
<td>Total Services Provided</td>
<td>$489,862</td>
<td>$512,377</td>
<td>$584,032</td>
<td>$627,418</td>
</tr>
</tbody>
</table>

The increase is due to AEP Texas receiving a higher share of this department’s costs in 2018 compared to 2015. The services risk provides to AEP affiliates are in support of AEP physical assets, so the total fixed assets allocation factor is the appropriate choice to allocate these costs. Therefore, the growth in AEP Texas assets since 2015 has increased the amount of costs allocated by this group to AEP Texas.

Q. ARE AEP TEXAS’ AFFILIATE EXPENSES FOR THE RISK AND STRATEGIC INITIATIVES SERVICES REASONABLE?
A. Yes. Insurance costs are a major cost of doing business, and AEPSC can negotiate insurance rates for the entire AEP system, which allows each operating company to enjoy lower costs than they could receive by procuring policies on a stand-alone basis. AEPSC is able to consolidate coverage for multiple affiliates under one umbrella of insurance policies and by doing so receives significant discounts. The financial risk area ensures that AEP Texas uses appropriate financial risk mitigation and monitors the Company for compliance with financial risk policies.

Other Finance Services - $36,281

Q. WHAT ARE AEP TEXAS’ ADJUSTED TEST YEAR COSTS FOR OTHER FINANCE SERVICES PROVIDED BY AEPSC?
A. As shown in Table 9 above, AEP Texas was billed $36,281 during the test year for these
services. These costs include the Office of the CFO and the support personnel for the
Finance division and include normal expenses such as salary, incentive, office supplies
and travel expenses for the Office. The CFO provides the overall guidance to the
departments discussed above, including setting overall performance goals and
expectations. The CFO is responsible for the compilation of the corporate strategic plans
and management reporting of those plans.

Other components of costs in the finance class include some post-retirement
benefits due to a new accounting standard in 2018 and pro-forma adjustments to the
overall affiliate costs presented in this case (primarily related to headcount). While these
items are spread throughout all departments of AEPSC, the pro-forma adjustment for this
case was made on an overall AEPSC basis and included in this class of affiliate service.
The pro-forma adjustments are explained earlier in my testimony.

Table 20
Chief Financial Officer Class of Service
Other Finance Services by Category for the Test Year Ended December 31, 2018

<table>
<thead>
<tr>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>CFO Expenses</td>
</tr>
<tr>
<td>Payroll Headcount Adjustment</td>
</tr>
<tr>
<td>Other Accounting Adjustments</td>
</tr>
<tr>
<td><strong>Total</strong></td>
</tr>
</tbody>
</table>

Source: EXHIBITS BJF-4 and BJF-8

Q. ARE THE SERVICES PROVIDED BY THE CFO AND HIS STAFF NECESSARY TO
AEP TEXAS?

A. Yes. The oversight provided by the CFO and his staff assist in the management of all
finance services that are provided to AEP Texas is necessary in maintaining AEP Texas’
books and records, preparing reports, and managing AEP Texas’ capital structure. These activities are not duplicated by any employees of AEP Texas.

B. Chief Executive Officer’s Class of Service - $1,134,316

Q. ARE YOU SUPPORTING THE ENTIRE CHIEF EXECUTIVE OFFICER (CEO) CLASS OF SERVICE?
A. No. I am supporting the costs for Internal Audit and the CEO’s costs. One other department under the CEO, Legal, is supported by Leigh Anne Strahler.

Q. WHAT ARE AEP TEXAS’ ADJUSTED TEST YEAR COSTS FOR CHIEF EXECUTIVE OFFICER CLASS OF SERVICES PROVIDED BY AEPSC?
A. The CEO class of services test year costs for AEP Texas which I support are $1,134,316. These services, shown on EXHIBIT BJF-9 by department and by allocation factor, include the CEO and Internal Audit.

Q. HOW DO THESE COSTS BREAK DOWN BY MAJOR AREA?
A. The major service categories and the amounts billed to AEP Texas are as follows:

| Table 21 | Chief Executive Officer’s Class of Service |
| For the Test Year Ended December 31, 2018 | Amount in AEP Texas Cost of Service |
| Chief Executive Officer | $400,012 |
| Internal Audit | 734,304 |
| **Total Chief Executive Officer** | **$1,134,316** |

Source: EXHIBIT BJF-9

Q. WHY DOES THE INTERNAL AUDIT DEPARTMENT REPORT DIRECTLY TO THE CEO?
A. The Internal Audit department reports to the Chairman in order to maintain independence from other departments within AEP that the Internal Audit group may audit. The Internal Audit department also has a direct relationship to the audit committee of the AEP Board of Directors.

Q. WHAT ARE THE MAJOR COMPONENTS OF THE CEO'S CLASS OF SERVICE COSTS?

A. The CEO class of service costs are incurred in the following categories:

<table>
<thead>
<tr>
<th></th>
<th>Labor</th>
<th>Outside Services</th>
<th>Other</th>
<th>Grand Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>CEO</td>
<td>$186,044</td>
<td>83,233</td>
<td>130,735</td>
<td>$400,012</td>
</tr>
<tr>
<td>Internal Audit</td>
<td>$697,643</td>
<td>20,764</td>
<td>15,897</td>
<td>$734,304</td>
</tr>
<tr>
<td>Total</td>
<td>$883,687</td>
<td>103,997</td>
<td>146,632</td>
<td>$1,134,316</td>
</tr>
</tbody>
</table>

% of Total  78% 9% 13% 100%

Table 22

Components of Chief Executive Officer Class by Cost Category

Note: Does not include CEO classes supported by other Company witnesses

Source: W/P Frantz – 7B

The majority of the CEO expenses consist of employee labor and labor related costs. The reasonableness of AEPSC’s salaries and incentives costs is discussed by Mr. Carlin, and the AEPSC benefits are discussed by Mr. Cooper.

Q. WHAT IS THE COST TREND FOR THE SERVICES PROVIDED BY THE CHIEF EXECUTIVE OFFICER?

A. The services I sponsor from the Chief Executive Officer have decreased since 2015, as shown in the table below:
Table 23
Chief Executive Officer Cost Trends
As Billed to AEP Texas

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>Test Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chief Executive Officer</td>
<td>$811,233</td>
<td>$679,552</td>
<td>$704,428</td>
<td>$400,012</td>
</tr>
<tr>
<td>Internal Audit</td>
<td>425,474</td>
<td>553,650</td>
<td>535,962</td>
<td>734,304</td>
</tr>
<tr>
<td>Total</td>
<td>$1,236,706</td>
<td>$1,233,202</td>
<td>$1,240,389</td>
<td>$1,134,316</td>
</tr>
</tbody>
</table>

Note: Does not include CEO classes supported by other Company witnesses

Since 2015, CEO costs have decreased $102,390 (8%) due primarily to reductions in outside services.

Table 24
Chief Executive Officer Headcount Trends

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>Test Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chief Executive Officer</td>
<td>6</td>
<td>6</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Internal Audit</td>
<td>40</td>
<td>42</td>
<td>40</td>
<td>42</td>
</tr>
<tr>
<td>Total</td>
<td>46</td>
<td>48</td>
<td>43</td>
<td>45</td>
</tr>
</tbody>
</table>

Note: Does not include CEO classes supported by other Company witnesses
Source: W/P Frantz - 8

Q. PLEASE DESCRIBE HOW THE BUDGETING PROCESS IS USED BY THE CEO’s CLASS OF SERVICES TO MONITOR AND CONTROL COSTS.

A. Each of these departments uses the same budgeting and review process that I previously described for the CFO class. A budget versus actual analysis for these departments for the past two years and the test year, for the total department (excluding incentives) and not only the portions billed to AEP Texas, is shown below:
Table 25
CEO/Internal Audit
Budget vs. Actual Trends
(in millions)

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2017</th>
<th>Test Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Budget</td>
<td>$12.9</td>
<td>$17.3</td>
<td>$10.4</td>
</tr>
<tr>
<td>Actual O&amp;M Expenditures</td>
<td>$15.6</td>
<td>$14.0</td>
<td>$9.9</td>
</tr>
<tr>
<td>Over (Under) Budget</td>
<td>$2.7</td>
<td>$(3.3)</td>
<td>$(0.5)</td>
</tr>
</tbody>
</table>

Note: Does not include Chairman’s Office classes supported by other Company witnesses

In total, the CEO and Internal Audit departments have been below budget for 2016 through the test year.

Internal Audit - $734,304

Q. PLEASE DESCRIBE THE INTERNAL AUDIT SERVICES PROVIDED TO AEP TEXAS.

A. Internal Audit provides audit and review services to assist management and the Board of Directors in the effective discharge of their responsibilities to establish, maintain, and oversee a proper internal control environment. Internal Audit reports directly to the Chief Executive Officer of AEP and has a direct reporting responsibility to the Chairman of the audit committee of the Board of Directors.

Internal Audit also has key responsibilities in the management and implementation of the Sarbanes-Oxley Act and in AEP Texas’ compliance with the Act, including the management and tracking of the AEP system controls matrix consisting of several thousand testing requirements. As a result of Sarbanes, the Company was required to implement a new system to track all accounting and management controls, the testing
of the controls, and the results of the testing. The department also provides the workflow for the preparation and review of Sarbanes testing requirements.

Q. PLEASE DISCUSS THE REASONABLENESS OF AFFILIATE EXPENSES FOR INTERNAL AUDIT AND THE BENEFITS THAT AEP TEXAS DERIVES FROM PROVISION OF THESE SERVICES BY A CENTRALIZED SERVICE COMPANY.

A. AEPSC’s internal audit services benefit each AEP subsidiary, including AEP Texas, by providing a single point of contact for parties involved in overall corporate governance, such as the AEP audit committee. The centralized provision of internal audit service provides for the corporate-wide planning of audit activities and coordination with AEP’s independent accounting firm to ensure that it performs only those services necessary, thereby controlling the firm’s billings. The centralization of audit services allows for corporate-wide planning and management of audit personnel, which allows the audit services group to remain at an optimal skill level and head count. Generally, the effect of improved, cost-beneficial internal controls is lower costs through improved asset utilization and control. These benefits accrue to the reviewed organization or subsidiary and to its customers. The benefits resulting from internal controls affecting future operations are avoided costs of corrections and potential financial report restatements.

Chief Executive Officer - $400,012

Q. WHAT ARE AEP TEXAS’ ADJUSTED TEST YEAR COSTS PER SCHEDULE V-K-12 FOR THE CEO COSTS PROVIDED BY AEPSC?

A. The CEO costs billed to AEP Texas are $400,012. This amount is less than half the level of costs in 2015. The Chief Executive Officer provides overall strategy, direction and management to all companies in the AEP system and includes the Chairman/CEO of
AEP and his staff. Additionally, this department manages corporate initiatives for the benefit of all companies, provides support to the AEP Board of Directors, and participates in national and international organizations to promote or resolve industry issues.

C. Internal Support Class of Service - $1,466,206

Q. WHAT ARE AEP TEXAS' ADJUSTED TEST YEAR COSTS PER SCHEDULE V-K-1 FOR INTERNAL SUPPORT CHARGES BILLED BY AEPSC?
A. The internal support test year costs for AEP Texas are $1,466,206.

Q. WHAT IS THE NATURE OF THE COSTS INCLUDED IN THE INTERNAL SUPPORT CHARGES?
A. Just as AEP Texas requires accounting, finance and other corporate support services to sustain its operations, so does AEPSC. These and other similar categories of costs are the ongoing routine cost of maintaining AEPSC as an ongoing business concern. For example, AEPSC is required to maintain a general ledger and report financial results to various external parties. As a result, AEPSC requires accounting services to maintain its own operations. These costs are included in the internal support billing. AEPSC must collect the costs of maintaining its own business operations and personnel though its billings to all the affiliates it serves, including AEP Texas.

Q. WHAT IS THE COST TREND FOR THE INTERNAL SUPPORT COSTS?
A. The trend in Internal support costs since 2015 has been:
**Table 26**

**Internal Support Trends**

**As Billed to AEP Texas**

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>Test Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Billed to AEP</td>
<td>$1,062,318</td>
<td>$1,195,238</td>
<td>$1,098,531</td>
<td>$1,466,206</td>
</tr>
<tr>
<td>Texas</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Q. HOW DOES THE BILLING SYSTEM WORK TO ENSURE THAT AEP TEXAS RECEIVES ONLY ITS APPROPRIATE SHARE OF THESE CHARGES?

A. Each month the costs to support the operation of AEPSC are accumulated. These costs are then billed to each company who received services from AEPSC during that period, in direct proportion to the amount of services each company received. For example, a company who received 5% of the total services billed by AEPSC in a given month for services will receive a charge for 5% of the AEPSC support costs. Allocating the costs to support AEPSC to those companies who use the services of AEPSC ensures that each company pays for the operations of the services company at a level that is commensurate with the level of services it receives.

Q. WHY IS THIS APPROACH TO BILLING THE COST OF INTERNAL SERVICE COMPANY SUPPORT USED?

A. This approach is used to ensure each company pays for the appropriate level of AEPSC operational costs. On a periodic basis, the support costs are reviewed to determine whether the costs can be more directly billed. When it is determined that a more direct method exists and is cost effective to implement, that category of costs is removed from the support “pool” and is billed in a manner that is more direct.
Q. WHAT PERCENTAGE OF THE ENTIRE AEPSC BILL IS ATTRIBUTABLE TO INTERNAL SUPPORT COSTS?

A. For the test year ended December 31, 2018, AEPSC billed out $1.5 million in internal support costs to AEP Texas, which represents approximately 2% of the total AEP Texas bill.

Q. DO YOU BELIEVE THE INTERNAL SUPPORT COSTS BILLED TO AEP TEXAS ARE REASONABLE?

A. Yes, I do. AEPSC bills out all expenses, including its internal support costs, using an "at-cost" basis. AEPSC generates zero net income and bills no mark-up or profit. If AEP Texas were able to obtain and purchase comparable services from a source other than AEPSC, the price paid by AEP Texas would likely include overheads similar to the AEPSC internal support costs, as well as a profit margin for the outside company performing the work. AEPSC has no profit motive, bills at cost, and provides economies of scale through the common provision of utility services.

Q. HAVE YOU MADE ANY ADJUSTMENTS TO THE INTERNAL SUPPORT COSTS IN THIS CASE?

A. Yes. Pro-forma number 11 in Section 1.D. of my testimony discusses the adjustment I made to internal support. Because internal support is allocated to companies based on the level of services they receive from AEPSC, it is appropriate when adjustments are made to increase or decrease the AEPSC costs included, in the context of a rate case, that we also make an upward or downward adjustment in the amount of internal support charged. This ensures that the overall costs charged to AEP Texas reflect the internal support loading in the proper relation to the total AEPSC costs included in the filing.
D. AEPSC Incentives Class of Service - $7,383,800

Q. WHAT ARE AEPSC’S ADJUSTED TEST YEAR COSTS PER SCHEDULE V-K-1 FOR AEPSC INCENTIVES BILLED BY AEPSC?

A. The AEPSC incentives adjusted test year costs for AEP Texas are $7,383,800.

Q. WHAT IS THE NATURE OF THE COSTS INCLUDED IN THE AEPSC INCENTIVES?

A. The costs included are the expenses billed to AEP Texas for AEPSC employees’ participation in the annual incentive and long-term incentive compensation plans. AEP Texas witness Carlin discusses the Company’s incentive compensation programs. I sponsor a proforma adjustment to reduce the annual and long-term incentive costs to a target level.

V. REASONABLENESS OF ALLOCATION FACTORS

Q. PLEASE DISCUSS THE ALLOCATION FACTORS USED FOR EACH CLASS OF SERVICE IN THIS CASE.

A. As mentioned earlier, all AEPSC departments directly assign costs to the appropriate affiliate company to the maximum extent practicable. In cases where a service is provided to more than one affiliate company, an allocation factor that best correlates to the cost driver underlying the service provided is selected. The allocation factors used by each separate class of service have been selected for use based upon the unique services provided to multiple affiliates, including AEP Texas. By utilizing appropriate allocation factors which fairly and reasonably allocate AEPSC costs for services rendered to the operating companies, AEPSC ensures that AEP Texas and the other
operating companies receive charges no higher than those of other AEP affiliates for the same services or types of service.

A. Customer Service ($4,943,371)

Q. WHAT SERVICES ARE PROVIDED BY THE AEPSC CUSTOMER SERVICE ORGANIZATION?

A. As discussed in greater detail in the testimony of AEP Texas witness Murphy, the AEPSC Customer and Distribution Services (C&DS) organization provides specialized energy delivery support services and expertise across the AEP system. The customer service related departments are as follows:

- Customer Operations – responsibilities include operation of the six virtually-integrated Customer Operations Centers (COC) which respond to all customer service inquiries including credit-related functions, supporting AEP’s operating company websites, providing technical and training support to AEP Texas customer services employees, and providing training and quality call monitoring for the COCs.

- Customer Services Support – responsibilities include support related to load research, consumer programs, market research, and customer services support.

- Meter, Repair, and Special Billing – responsibilities include providing meter standards, providing meter engineering support, meter program development, and meter testing and refurbishment.

- Economic and Business Development – responsibilities include developing new programs and initiatives to spur growth and investment throughout AEP’s service territories, and managing AEPSC National Accounts that includes providing national account management services to large chain accounts that have locations in more than one AEP Operating Company service area.

Q. WHAT ALLOCATION FACTORS ARE PREDOMINATELY USED TO CHARGE CUSTOMER SERVICE TO AEP TEXAS?
A. Three allocation factors account for ~91% of the Customer Services costs charged to AEP Texas by AEPSC. These include “100% to One Company,” “Number of Electric Retail Customers,” and “Number of Phone Center Calls”.

Number of Electric Retail Customers ($2,074,605) accounts for ~42% of the AEPSC customer service charges to AEP Texas. This allocation factor is used to allocate the cost of services such as handling customer complaints, managing and supporting customer service field applications, end-use customer meter related services, managing and supporting the customer information system, designing customer related systems and processes and processing customer-related market transactions. This allocation factor is proper for these services since they directly relate to end-use customers, and the volume of work varies with the number of customers.

100% to One Company ($1,610,690) accounts for ~33% of the AEPSC customer service charges to AEP Texas. Included in these directly assigned charges are costs related to the customer operations centers. Also included in this factor are load research costs. Any service that is performed specifically for a single affiliate company, including AEP Texas, is directly assigned.

Number of Phone Center Calls ($837,052) accounts for ~17% of the AEPSC customer service charges to AEP Texas. This allocation factor is used to allocate the costs of services such as the COC supporting customer inquiries and requests. For those COC costs not tracked separately for each company, such as time on the phone with customers, this volume driven factor allocates these support services in the proportion to the relative level of customer calls.

DIRECT TESTIMONY
BRIAN J. FRANTZ
Q. HOW ARE THE REMAINING AEPSC CUSTOMER SERVICE COSTS CHARGED TO AEP TEXAS?

A. The small amount of remaining costs ($421,024) is allocated using a variety of different allocation formulas. In each instance, however, the choice of the allocation factor for a particular project or activity is the product of the same selection and review process overseen by the AEPSC Accounting department and described earlier in my testimony. Accordingly, these charges are likewise properly allocated based upon factors that reflect principles of cost causation. Each of these allocation factors is provided on W/P Frantz – 2B.

B. Distribution ($4,662,626)

Q. WHAT SERVICES ARE PROVIDED BY THE AEPSC DISTRIBUTION SERVICES ORGANIZATION?

A. As discussed in greater detail in the testimony of AEP Texas witness Thomas Coad, the AEPSC C&DS organization provides specialized energy delivery support services and expertise across the AEP system. The distribution related departments are as follows:

- Distribution and Performance Management & Data Analytics – responsibilities include the Performance Management group which conducts data analysis and benchmarking, supports system-wide process improvement initiatives, and manages system budgeting and expenditure tracking. The Data Analytics and Customer & Grid Analytics groups examine information obtained from the utility distribution operations across the AEP footprint to identify and manage operational efficiencies, as well as the need and expectations of our customers.

- Distribution Services Support – responsibilities include efforts on those functions tied to system reliability and performance in AEP’s eleven state service territory. This organization provides overall coordination for distribution standards, system capacity planning, network engineering, reliability planning, forestry and emergency restoration planning activities.
While each operating company has command and control of the day-to-day functions of distribution forestry, Distribution Reliability Planning and Engineering focuses on process improvements, best practices, hardware and system development, and contract negotiations in order to improve overall forestry operating efficiencies. This group also provides distribution line training which provides AEP with safe and effective employees through education and the promotion of consistent practices and procedures, and human performance improvement which uses well founded principles in error reduction to improve employee safety and health.

Q. WHAT ALLOCATION FACTORS ARE PREDOMINATELY USED TO CHARGE DISTRIBUTION SERVICES TO AEP TEXAS?

A. Four allocation factors account for ~88% of the Distribution services costs charged to AEP Texas by AEPSC. These include “Number of Electric Retail Customers,” “100% to One Company,” “Total Assets,” and “Number of Workstations.”

Number of Electric Retail Customers ($2,252,634) accounts for ~48% of the AEPSC distribution services charges to AEP Texas. This allocation factor is used for services where the relative size of the various distribution Business Units receiving the service drives the level of services. Since distribution companies are sized to serve end-use customers, the number of customers provides an appropriate measure of relative size. The larger number of retail customers, the more activity is required to be expended on each of the activities that fall in this category.

100% to One Company ($784,302) accounts for ~17% of the AEPSC distribution services charges to AEP Texas. Included in these directly assigned costs are performance management services, and meter services support provided directly to AEP Texas. Any service that is performed specifically for a single affiliate company, including AEP Texas, is directly assigned.
Total Assets ($755,048) accounts for ~16% of the AEPSC distribution services charged to AEP Texas. This allocation factor is used for distribution services related to strategic planning, continuity planning, technical or economic analysis, and market research. In these instances, the level of service varies in proportion to the size of the affiliate benefiting from the service and, as such, asset size is a reasonable method to assign the cost for such service.

Number of Workstations ($319,973) accounts for ~7% of the AEPSC distribution services charges to AEP Texas. This allocation factor is used for distribution related services that provide operational support for the core information technology systems that support the day-to-day operations of the distribution and customer functions. In these instances, the level of services varies in proportion to the number of workstations at the various entities receiving the services.

Q. HOW ARE THE REMAINING AEPSC DISTRIBUTION SERVICES COSTS CHARGED TO AEP TEXAS?

A. The small amount of remaining costs ($550,669) is allocated using a variety of different allocation formulas. In each instance, however, the choice of the allocation factor for a particular project or activity is the product of the same selection and review process overseen by the AEPSC Accounting department and described earlier in my testimony. Accordingly, these charges are likewise properly allocated based upon factors that reflect principles of cost causation. Each of these allocation factors is provided on W/P Frantz – 2B.
C. Transmission ($15,843,817)

Q. WHAT SERVICES ARE PROVIDED BY THE AEPSC TRANSMISSION SERVICES ORGANIZATION?

A. As discussed in greater detail in the testimony of AEP Texas witness Daniel Boezio, the AEPSC Transmission organization operates the AEP transmission system as part of its responsibility to manage the overall AEP transmission system. The transmission related departments are as follows:

- Transmission Ventures Strategy and Policy – responsibilities include transmission asset strategy and policy, financial oversight and reporting, and oversight of all Transmission Policy matters.

- Grid Development – charged with improving Transmission’s efficiency, cost containment, and supporting NERC compliance.

- Transmission Reliability Assurance (TRA) – coordinates AEP Transmission’s efforts to support the reliability of AEP’s Bulk Electric System through compliance with North American Electric Reliability Corporation (NERC) reliability standards, in coordination with AEP’s Enterprise NERC Compliance group. TRA also is responsible for the conceptual development of NERC controls and operational excellence initiatives, in order to support process improvement efforts throughout the AEP NERC Reliability Compliance program.

- Transmission Business Operations and Controls – responsible for performance management, quality improvement and internal communications.

- Transmission Field Services and Controls – responsibilities include transmission field operations, maintenance, and emergency restoration of the AEP transmission system. This group is charged with constructing, upgrading and maintaining over 3,500 substations and approximately 38,000 circuit miles of transmission lines in the AEP System.

Q. WHAT ALLOCATION FACTORS ARE PREDOMINATELY USED TO CHARGE TRANSMISSION SERVICES TO AEP TEXAS?
A. Three allocation factors account for ~96% of the transmission services costs charged to AEP Texas by AEPSC. These include “Number of Transmission Pole Miles,” “Total Assets,” and “100% to One Company.”

Total Assets ($10,361,096) accounts for ~65% of the AEPSC transmission charges to AEP Texas. This allocation factor is used primarily for transmission services related to managing and monitoring the design, construction, and operation of transmission facilities, NERC compliance, training, and process improvement. In these instances, the level of service varies in proportion to the size of the affiliate benefiting from the service and, as such, asset size is a reasonable method to assign the cost for such service.

100% to One Company ($4,308,030) accounts for ~27% of the AEPSC transmission charges to AEP Texas. These include costs related to managing and monitoring the design, construction, and operation of transmission facilities, NERC compliance, training, and process improvement provided directly to AEP Texas. Any service that is performed specifically for a single affiliate company, including AEP Texas, is directly assigned.

Number of Transmission Pole Miles ($587,416) accounts for ~4% of the AEPSC transmission charges to AEP Texas. The services and activities allocated using this factor include general support necessary to plan, operate and maintain the transmission system. The level of work involved in these services is primarily dependent upon the size of the transmission system. The number of pole miles is the most appropriate means to allocate these charges.
Q. HOW ARE THE REMAINING AEPSC TRANSMISSION SERVICES COSTS CHARGED TO AEP TEXAS?

A. The small amount of remaining costs ($587,275) is allocated using a variety of different allocation formulas. In each instance, however, the choice of the allocation factor for a particular project or activity is the product of the same selection and review process overseen by the AEPSC Accounting department and described earlier in my testimony. Accordingly, these charges are likewise properly allocated based upon factors that reflect principles of cost causation. Each of these allocation factors is provided on W/P Frantz – 2B.

D. External Affairs ($358,622)

Q. WHAT SERVICES ARE PROVIDED BY THE AEPSC EXTERNAL AFFAIRS ORGANIZATION?

A. As discussed in greater detail in the testimony of AEP Texas witness Gilbert Hughes, the AEPSC External Affairs organization provides federal government affairs support to AEP Texas and the other AEP companies. The External Affairs department monitors federal legislation and issues that affect the business operations of the AEP companies and serves as a resource for federal officials. External Affairs also monitors and participates in rulemakings and other public policy discussions at various federal agencies, such as the FERC and the Department of Energy. As Mr. Hughes explains, these costs also include certain corporate sustainability and external affairs costs.

Q. WHAT ALLOCATION FACTORS ARE PREDOMINATELY USED TO CHARGE EXTERNAL AFFAIRS SERVICES TO AEP TEXAS?
A. Two allocation factors account for ~87% of the external affairs services costs charged to AEP Texas by AEPSC. They are “Total Assets” and “Number of Electric Retail Customers.”

Total Assets ($233,167) accounts for ~65% of the AEPSC external affairs charges to AEP Texas. The majority of services provided by the External Affairs department are done at the federal level on behalf of all AEP companies. As such, the costs are allocated to all companies using the total asset allocation factor because the level of time and effort required in providing these services, and the relative benefit, is proportionate to the relative size of the company receiving these services.

Number of Electric Retail Customers ($78,336) accounts for ~22% of the external affairs charges to AEP Texas. This allocation factor is used for services where the relative size of the various distribution Business Units receiving the service drives the level of services.

Q. HOW ARE THE REMAINING AEPSC EXTERNAL AFFAIRS SERVICES COSTS CHARGED TO AEP TEXAS?

A. The small amount of remaining costs ($47,119) is allocated using a variety of different allocation formulas. In each instance, however, the choice of the allocation factor for a particular project or activity is the product of the same selection and review process overseen by the AEPSC Accounting department and described earlier in my testimony. Accordingly, these charges are likewise properly allocated based upon factors that reflect principles of cost causation. Each of these allocation factors is provided on W/P Frantz – 2B.
E. Regulatory ($1,858,373)

Q. WHAT SERVICES ARE PROVIDED BY THE AEPSC REGULATORY SERVICES ORGANIZATION?

A. As discussed in greater detail in the testimony of AEP Texas witness Strahler, the AEPSC Regulatory Services organization provides support services related to case management, pricing and analysis, state and federal regulatory strategy, RTO, NERC compliance and public policy issue management. By major section, the services provided by the Regulatory Services organization are described below:

- Regulatory Case Management – coordinate and manage major state and federal regulatory filings.

- Regulated Pricing and Analysis - assist in development of state regulatory filings, working closely with case managers and state regulatory directors; perform cost-of-service studies and rate design analysis; and provide supporting testimony.

- Enterprise NERC Compliance – lead and oversee AEP’s compliance with applicable NERC standards.

- RTO – Facilitate analysis of issues in ERCOT and the other RTOs in which AEP operates, and coordinate development of company-wide positions.

Q. WHAT ALLOCATION FACTORS ARE PREDOMINATELY USED TO CHARGE REGULATORY SERVICES TO AEP TEXAS?

A. Three allocation factors account for ~88% of the Regulatory Services costs charged to AEP Texas by AEPSC. They are “Total Assets,” “100% to One Company,” and “Number of Transmission Pole Miles.”

Total Assets ($785,765) accounts for ~42% of the AEPSC regulatory charges to AEP Texas. These activities include providing overall regulatory policy and support as well as rate case coordination. The total assets factor is used since the underlying service
provided relates to the total size of the companies to which it is being provided. A smaller company with fewer assets generally requires less regulatory activity than a larger company. Further, the focus of these activities is the preservation and enhancement of the value of AEP Texas’ assets, and the level of work devoted to each utility benefiting from the service is generally driven by the size of its total assets.

Number of Transmission Pole Miles ($516,159) accounts for ~28% of the AEPSC Regulatory charges to AEP Texas. These services include regulatory support related to NERC compliance. As these services relate to overall compliance within the transmission organization, the number of relative transmission pole miles is the appropriate factor to allocate the costs of the services provided. The level of services provided, and benefit received, is in proportion to the size of each companies transmission system, which the pole miles allocation factor measures.

100% to One Company ($326,955) accounts for ~18% of the AEPSC regulatory charges to AEP Texas. Any regulatory service provided, such as regulatory filing support or a cost-of-service study, which is for the benefit of a single company, is directly charged to that company.

Q. HOW ARE THE REMAINING AEPSC REGULATORY SERVICES COSTS CHARGED TO AEP TEXAS?

A. The small amount of remaining costs ($229,494) is allocated using a variety of different allocation formulas. In each instance, however, the choice of the allocation factor for a particular project or activity is the product of the same selection and review process overseen by the AEPSC Accounting department and described earlier in my testimony. Accordingly, these charges are likewise properly allocated based upon factors that
reflect principles of cost causation. Each of these allocation factors is provided on W/P Frantz – 2B.

F. Corporate Safety and Health ($524,731)

Q. WHAT SERVICES ARE PROVIDED BY THE AEPSC CORPORATE SAFETY AND HEALTH ORGANIZATION?

A. The AEPSC Corporate Safety and Health organization provides expertise in the areas of occupational safety and health. The organization’s responsibilities include support in all areas of occupational safety and health, public and contractor safety, industrial hygiene, ergonomics, health and wellness, and training.

Q. WHAT ALLOCATION FACTORS ARE PREDOMINATELY USED TO CHARGE CORPORATE SAFETY AND HEALTH TO AEP TEXAS?

A. Two allocation factors account for ~89% of the corporate safety and health costs charged to AEP Texas by AEPSC. They are “Number of Employees” and “100% to One Company.”

Number of Employees ($330,383) accounts for ~63% of the corporate safety and health charges to AEP Texas. The services provided include the safety and health services to benefit all AEP employees. Since the services are directly for the benefit of employees, the relative number of employees at each company is the most reasonable allocation method.

100% to One Company ($134,711) accounts for ~26% of the corporate safety and health charges to AEP Texas. All safety and health services provided directly to AEP Texas employees or other facilities are directly charged.
Q. HOW ARE THE REMAINING AEPSC CORPORATE SAFETY AND HEALTH SERVICES COSTS CHARGED TO AEP TEXAS?

A. The small amount of remaining costs ($59,637) is allocated using a variety of different allocation formulas. In each instance, however, the choice of the allocation factor for a particular project or activity is the product of the same selection and review process overseen by the AEPSC Accounting department and described earlier in my testimony. Accordingly, these charges are likewise properly allocated based upon factors that reflect principles of cost causation. Each of these allocation factors is provided on W/P Frantz – 2B.

G. Information Technology ($12,752,361)

Q. WHAT SERVICES ARE PROVIDED BY THE AEPSC INFORMATION TECHNOLOGY ORGANIZATION?

A. As discussed in greater detail in the testimony of AEP Texas witness Gregory Filipkowski, the AEPSC Information Technology organization provides the AEP operating companies with effective and efficient information management tools and services; thus enabling the AEP operating companies to fulfill their mission of providing safe and reliable electric service to their customers. The information technology related departments are as follows:

- Demand Management – responsibilities include defining and maintaining the portfolio and investment plans of all Information Technology solutions required to run a business unit’s and an operating company’s operations. The team also aligns business unit strategic plans with technology strategic plans and managing short and long-term financial plans.

- Business Applications – responsibilities include development and support of the computer systems to meet the generation, transmission, distribution, customer service, and corporate functional needs of the company.
• Enterprise & Corporate Applications/Programs — responsible for implementing the Cornerstone Program, the ten-year initiative to renew large corporate enterprise systems, as well as application development and on-going support services for all enterprise-wide application and corporate functions business needs.

• Major Projects — manages and executes large scale enterprise-wide Information Technology projects and initiatives.

• Infrastructure & Operations — deploys cost-effective infrastructure solutions to enable the delivery of business applications, and supports platforms in AEP’s primary and backup data centers. The team also supports hardware and software and monitors AEP’s information technology infrastructure. Also responsible for defining and maintaining the technology product standards of all information and operations technology solutions required to run the business units and operating companies.

• Processes & Methods — supports successful delivery of information technology processes and projects. The team also measures and monitors project delivery metrics for improvement opportunities, and manages project methodologies and the enabling software applications.

• Risk Management — facilitates enterprise-wide identification and mitigation of Information Technology-related risk.

Q. WHAT ALLOCATION FACTORS ARE PREDOMINATELY USED TO CHARGE INFORMATION TECHNOLOGY SERVICES TO AEP TEXAS?

A. Five allocation factors account for ~94% of the information technology costs charged to AEP Texas by AEPSC. They are “100% to One Company,” “Total Assets,” “Number of Workstations,” “Number of Electric Retail Customers,” and “Number of Employees.”

Total Assets ($3,630,921) accounts for ~28% of the information technology charges to AEP Texas. These activities include planning, designing, and developing new systems/applications, process improvement, management/maintenance of computer systems, and application systems that utilize the IT infrastructure. The total assets factor is used since the underlying service provided relates to the total size of the companies to which it is being provided. A smaller company with fewer assets
generally requires less information technology activity than a larger company, so the
level of work devoted to each utility benefiting from the service is generally driven by
the size of its total assets.

Number of Electric Retail Customers ($3,073,987) accounts for ~24% of the
information technology charges to AEP Texas. These information technology services
are primarily performed for the AEPSC Customer and Distribution Services
organization, which commonly uses the number of electric retail customers allocation
factor to allocate their costs, which also include their usage of information technology
services.

Number of Workstations ($2,628,525) accounts for ~21% of the information
technology charges to AEP Texas. These activities include the day-to-day management
of computer/application systems that utilize the IT infrastructure. The number of
workstations factor is used since the underlying service provided relates to having a
workstation to benefit from the service. A smaller company with fewer workstations
requires less of these services than a larger company, so the level of work devoted to
each utility benefiting from the service is generally driven by the number of its
workstations.

100% to One Company ($1,438,905) accounts for ~11% of the information technology
charges to AEP Texas. These information technology services are performed for the
AEPSC departments who utilize the direct billed allocation factor, which primarily
were the AEPSC Customer and Distribution Services and AEP Transmission
organizations.
Number of Employees ($1,169,164) accounts for ~9% of the information technology charges to AEP Texas. These information technology services are performed primarily for the AEPSC Human Resources organization. The number of employees’ allocation factor is primarily used to allocate human resources services, and as such, their information technology support costs are also allocated utilizing this factor.

Q. HOW ARE THE REMAINING AEPSC INFORMATION TECHNOLOGY COSTS CHARGED TO AEP TEXAS?

A. The remaining costs ($810,859) are allocated using a variety of different allocation formulas, as provided on W/P Frantz – 2B. In each instance, the choice of the allocation factor for a particular project or activity is applied in the same manner as the services provided by the department utilizing the information technology service. Accordingly, these charges are likewise properly allocated based upon factors that reflect principles of cost causation.

H. Telecommunications ($1,263,276)

Q. WHAT SERVICES ARE PROVIDED BY THE AEPSC TELECOMMUNICATIONS ORGANIZATION?

A. As discussed in greater detail in the testimony of AEP Texas witness David Standley, the AEPSC Telecommunications organization provides reliable and secure Telecommunications services that deliver value to AEP Texas and other AEP business units. This group provides network communication across the AEP Texas footprint, which enables connectivity to Distribution and Transmission Dispatch Centers to monitor and control the organization’s SCADA systems.
Q. WHAT ALLOCATION FACTORS ARE PREDOMINATELY USED TO CHARGE TELECOMMUNICATION SERVICES TO AEP TEXAS?

A. Two allocation factors account for ~90% of the telecommunications costs charged to AEP Texas by AEPSC. They are "100% to One Company" and "Number of Telephones."

100% to One Company ($717,315) accounts for ~57% of the telecommunications charges to AEP Texas. All telecommunications services provided directly to AEP Texas are directly charged.

Number of Telephones ($415,806) accounts for ~33% of the telecommunications charges to AEP Texas. These activities include the engineering/design and day-to-day management/maintenance of telecommunications systems. The number of telephones factor is used since the underlying service provided relates to having a telephone to benefit from the service. A smaller company with fewer telephones requires less of these services than a larger company, so the level of work devoted to each utility benefiting from the service is generally driven by the number of its telephones.

Q. HOW ARE THE REMAINING AEPSC TELECOMMUNICATIONS COSTS CHARGED TO AEP TEXAS?

A. The remaining costs ($130,155) are allocated using a variety of different allocation formulas, as provided on W/P Frantz – 2B. In each instance, however, the choice of the allocation factor for a particular project or activity is the product of the same selection and review process overseen by the AEPSC Accounting department and described earlier in my testimony. Accordingly, these charges are likewise properly
allocated based upon factors that reflect principles of cost causation. Each of these allocation factors is provided on W/P Frantz – 2B.

I. Supply Chain, Procurement and Fleet Operations ($190,647)

Q. WHAT SERVICES ARE PROVIDED BY THE AEPSC SUPPLY CHAIN, FLEET OPERATIONS, AND PROCUREMENT ORGANIZATION?

A. As discussed in greater detail in the testimony of AEP Texas witness Jonathon Burns, the AEPSC Supply Chain, Procurement and Fleet Operations (SCPFO) organization provides supply chain and transportation support services to the AEP operating companies. The supply chain, fleet operations, and procurement related departments are as follows:

- Supply Chain and Fleet Operations – responsibilities include providing warehousing support, inventory controls, vehicle acquisitions, and administrative support for AEP Texas;
- Procurement – responsibilities include providing strategic management and tactical oversight for the procurement of good and services;
- Supply Chain Center of Excellence – provides an overall support structure for SCPFO functions, including maintenance and standardization of the AEP material catalog.

Q. WHAT ALLOCATION FACTORS ARE PREDOMINATELY USED TO CHARGE SUPPLY CHAIN, PROCUREMENT AND FLEET OPERATIONS (SCPFO) SERVICES TO AEP TEXAS?

A. Three allocation factors account for ~91% of the SCPFO costs charged to AEP Texas by AEPSC. They are “100% to One Company,” “Total Assets,” and “Number of Employees.”

Total Assets ($90,193) accounts for ~47% of the SCPFO charges to AEPSC. These supply chain, fleet operations, and procurement services are performed for the AEPSC
departments who utilize the total assets allocation factor, such as Real Estate & Workplace Services and the AEP Transmission organization. The supply chain, fleet operations, and procurement services that support these activities would also be appropriately allocated using the total assets allocation factor.

100% to One Company ($50,752) accounts for ~27% of the SCPFO charges to AEP Texas. SCPFO services provided directly on behalf of AEP Texas is directly assigned based upon their usage of each type of service.

Number of Employees ($31,953) accounts for ~17% of the SCPFO charges to AEP Texas. These services are performed for the AEPSC departments who utilize the number of employees allocation factor, such as Human Resources. Departments like Human Resources utilize the number of employees allocation factor when the service being provided is in relation to the total headcount of the respective companies, such as benefits and compensation support. The supply chain, fleet operations, and procurement services that support these activities would also be appropriately allocated using the number of employees allocation factor.

Q. HOW ARE THE REMAINING AEPSC SCPFO COSTS CHARGED TO AEP TEXAS?

A. The remaining costs ($17,749) are allocated using a variety of different allocation formulas, as provided on W/P Frantz – 2B. In each instance, the choice of the allocation factor for a particular project or activity is applied in the same manner as the services provided by the department utilizing the SCPFO service. Accordingly, these charges are likewise properly allocated based upon factors that reflect principles of cost causation.
Q. WHAT SERVICES ARE PROVIDED BY THE AEPSC REAL ESTATE AND WORKPLACE SERVICES ORGANIZATION?

A. As discussed in greater detail in the testimony of AEP Texas witness Randolph J. Ware, the AEPSC Real Estate and Workplace Services organization falls into two broad categories—Workplace Services and Real Estate Asset Management, as follows:

- Workplace Services — responsibilities include the operation and maintenance of office and service center facilities, including repairs, preventative maintenance, and grounds care.

- Real Estate Asset Management — responsibilities include the purchase and acquisition of land and buildings, the management of property acquisition and disposal, the leasing of office space or property from others, the management and maintenance of real estate records and payment of fees, including management of easement grants and licensee agreements, the management of income producing property, property inspections, negotiation and provision of necessary documents required for the removal, relocation or closure of public roads, or other facilities as may be necessary for construction of Company facilities, and management of land held for future use, forestlands and other land management initiatives as may be required.

Q. WHAT ALLOCATION FACTORS ARE PREDOMINATELY USED TO CHARGE REAL ESTATE AND WORKPLACE SERVICES TO AEP TEXAS?

A. Three allocation factors account for ~86% of the real estate and workplace services costs charged to AEP Texas by AEPSC. They are “Total Assets,” “100% to One Company,” and “Number of Electric Retail Customers.”

Total Assets ($2,280,817) accounts for ~57% of the real estate and workplace services charges to AEP Texas. These services include performing strategic planning and analysis, mail handling, and printing/reproduction services. These charges also include real estate and workplace services performed for the AEPSC departments who utilize
the total assets allocation factor. Some of these departments include Chief Financial
Officer, Chief Executive Officer, AEP Transmission, and Legal Services. These
departments utilize the total assets allocation factor when the service being provided is
in relation to the total financial size of the respective companies, such as financial
reporting services, legal matters, and overall Chairman support. The real estate and
workplace services that support these activities would also be appropriately allocated
using the total assets allocation factor.

100% to One Company ($771,859) accounts for ~19% of the real estate and workplace
services charges to AEP Texas. These real estate and workplace services are directly
charged to AEP Texas.

Number of Electric Retail Customers ($414,813) accounts for ~10% of the real estate
and workplace services charges to AEP Texas. These real estate and workplace
services are performed primarily for the AEPSC Customer & Distribution Services
(C&DS) organization. The number of electric retail customers allocation factor is
primarily used to allocate C&DS services, and as such, their real estate and workplace
services support costs are also allocated utilizing this factor.

Q. HOW ARE THE REMAINING REAL ESTATE AND WORKPLACE SERVICES
COSTS CHARGED TO AEP TEXAS?

A. The remaining costs ($562,869) are allocated using a variety of different allocation
formulas, as provided on W/P Frantz – 2B. In each instance, the choice of the allocation
factor for a particular project or activity is applied in the same manner as the services
provided by the department utilizing the real estate and workplace service.
Accordingly, these charges are likewise properly allocated based upon factors that reflect principles of cost causation.

K. Human Resources ($1,924,333)

Q. WHAT SERVICES ARE PROVIDED BY THE AEPSC HUMAN RESOURCES ORGANIZATION?

A. As discussed in greater detail in the testimony of AEP Texas witness Tracy A. Elich, the AEPSC Human Resources organization's mission is to attract, retain, and support a diverse and qualified workforce to facilitate the multi-faceted work responsibilities required to provide utility service to our customers. The human resources related departments are as follows:

- Total Rewards (Benefits & Compensation) – responsibilities include the design, development, management and administration of all benefits and compensation programs, including compensation, health and welfare benefits, retirement pension and 401(k), payroll administration, work/life balance, wellness programs, and statutory benefits.

- Employee Relations – responsibilities include providing localized strategic consultation and support in all areas of employee relations.

- Talent Management – responsibilities include design, development, and administration of leadership programs designed to enhance leadership, team performance, and employee engagement.

- Corporate Stewardship – provides Human Resource management and oversight.

Q. WHAT ALLOCATION FACTORS ARE PREDOMINATELY USED TO CHARGE HUMAN RESOURCES SERVICES TO AEP TEXAS?

A. Two allocation factors account for ~92% of the human resources costs charged to AEP Texas by AEPSC. They are “Number of Employees” and “Total Assets.”
Number of Employees ($1,605,173) accounts for ~83% of the human resources charges to AEP Texas. Most of the services provided by Human Resources, such as employee compensation administration, benefits administration and training services are directly associated to the relative number of employees at each company. As such, this allocation factor directly associates the services provided with the companies receiving the benefits.

Total Assets ($162,378) accounts for ~8% of the human resources charges to AEP Texas. These human resources services are performed for the AEPSC departments who utilize the total assets allocation factor, primarily the AEP Transmission organization. This department utilizes the total assets allocation factor when the service being provided is in relation to the total financial size of the respective companies. The human resources services that support these activities would also be appropriately allocated using the total assets allocation factor.

Q. HOW ARE THE REMAINING AEPSC HUMAN RESOURCES COSTS CHARGED TO AEP TEXAS?

A. The remaining costs ($156,782) are allocated using a variety of different allocation formulas, as provided on W/P Frantz – 2B. In each instance, the choice of the allocation factor for a particular project or activity is applied in the same manner as the services provided by the department utilizing the human resources service. Accordingly, these charges are likewise properly allocated based upon factors that reflect principles of cost causation.
L. Chief Financial Officer ($5,388,646)

Q. WHAT SERVICES ARE PROVIDED BY THE AEPSC CHIEF FINANCIAL OFFICER ORGANIZATION?

A. As discussed in greater detail earlier in my testimony, the AEPSC Chief Financial Officer organization provides accounting, budgeting, treasury, investor relations, risk and strategic initiatives services to the AEP companies.

Q. WHAT ALLOCATION FACTORS ARE PREDOMINATELY USED TO CHARGE CHIEF FINANCIAL OFFICER SERVICES TO AEP TEXAS?

A. Three allocation factors account for 68% of the CFO costs charged to AEP Texas by AEPSC. They are, “Total Assets,” “100% to One Company,” and “Number of General Ledger Transactions.” Another allocation factor, “AEPSC Past Three Months Total Bill,” had a credit charged to AEP Texas in the test year, which represented a (45%) share of the CFO costs.

Total Assets ($2,540,213) accounts for ~47% of the CFO charges to AEP Texas. These services include general accounting, regulatory accounting, financial reporting, treasury, and corporate planning and budgeting services. The total asset allocation factor is used to bill activities such as developing and updating accounting policies and procedures, coordinate tax compliance, preparing regulatory schedules, preparing internal and external financial statements, and preparing, monitoring, and analyzing corporate budgets. The total asset allocation factor measures the size of the company, and the size of the company is an accurate indication of the relative level of complexity of the accounting and finance requirements. Larger companies, i.e. those with greater
assets, require more time and effort in the accounting, regulatory, budgeting, and policy areas than smaller companies.

100% to One Company ($595,789) accounts for ~11% of the CFO charges to AEP Texas. These services include accounting, risk, and budgeting activities performed directly for AEP Texas. These types of activities that are performed solely for the benefit of AEP Texas are directly assigned to them.

Number of General Ledger Transactions ($374,640) accounts for ~7% of the CFO charges to AEP Texas. These services relate to the monthly closing of the accounting books. The number of general ledger transactions is a volume based allocation factor that is a direct result of the entries made into the ledgers by the accounting staffs and is the most appropriate factor to bill ledger related costs.

AEPSC Past Three Months Total Bill ($-2,451,224) primarily relates to the new accounting standard that started in 2018, which changed the accounting for certain non-service pension and other post-retirement benefit costs. These costs, which were credits to cost of service during the test year, were allocated in relation to the total usage of AEPSC services, which provided a reasonable means of allocation.

Q. HOW ARE THE REMAINING AEPSC CFO COSTS CHARGED TO AEP TEXAS?

A. The majority of the remaining costs ($4,329,228) relates to the ~$3.656 million pro-forma adjustment #7 noted on page 11 of my testimony, which is not applied to an allocation factor. The remaining costs are allocated using a variety of different allocation formulas. In each instance, however, the choice of the allocation factor for a particular project or activity is the product of the same selection and review process overseen by the AEPSC Accounting department and described earlier in my testimony.
Accordingly, these charges are likewise properly allocated based upon factors that reflect principles of cost causation. Each of these allocation factors is provided on W/P Frantz – 2B.

**M. Chief Executive Officer ($1,134,316)**

**Q. WHAT SERVICES ARE PROVIDED BY THE AEPSC CHIEF EXECUTIVE OFFICER ORGANIZATION?**

**A.** As discussed in greater detail earlier in my testimony, the AEPSC Chief Executive Officer organization provides corporate leadership to all AEP companies, including AEP Texas. In addition, this organization provides internal audit services to the AEP companies.

**Q. WHAT ALLOCATION FACTORS ARE PREDOMINATELY USED TO CHARGE CHIEF EXECUTIVE OFFICER SERVICES TO AEP TEXAS?**

**A.** Two allocation factors account for ~95% of the CEO costs charged to AEP Texas by AEPSC. They are “Total Assets,” and “100% to One Company.”

**Total Assets ($899,381) accounts for ~79% of the CEO charges to AEP Texas. These services include internal audit services and CEO services. The internal audit function is one of corporate governance, and it is the responsibility of the Internal Audit department to assure management that proper policies and procedures are in place and are being followed in the entire corporation. Internal Audit uses the total assets allocation factor to bill its shared costs because many of its audits and corporate governance work benefits all companies, and the materiality to AEP of each company’s adherence to proper policies is a direct result of the size of the company.
The CEO is responsible for AEP and all subsidiary companies. The size of the companies for which he is responsible has a direct relationship to the time and effort required to manage the issues arising from those companies. Small companies, with fewer assets to put at risk, do not have the level of risk as the larger companies.

100% to One Company ($179,086) accounts for ~16% of the CEO charges to AEP Texas. These services primarily relate to internal audits performed specifically for AEP Texas issues. As with internal audits performed specifically for other companies, the costs are directly assigned.

Q. HOW ARE THE REMAINING AEPSC CHIEF EXECUTIVE OFFICER COSTS CHARGED TO AEP TEXAS?

A. The small amount of remaining costs ($55,849) is allocated using a variety of different allocation formulas. In each instance, however, the choice of the allocation factor for a particular project or activity is the product of the same selection and review process overseen by the AEPSC Accounting department and described earlier in my testimony. Accordingly, these charges are likewise properly allocated based upon factors that reflect principles of cost causation. Each of these allocation factors is provided on W/P Frantz – 2B.

N. Legal ($2,001,175)

Q. WHAT SERVICES ARE PROVIDED BY THE AEPSC LEGAL SERVICES ORGANIZATION?

A. As discussed in greater detail in the testimony of AEP Texas witness Strahler, the AEPSC Legal Services organization provides centralized legal services to all AEP companies, including AEP Texas. The legal departments are as follows:
• Litigation – responsibilities include initiating and defending various types of lawsuits involving AEP companies, such as personal injury claims, disputes with contractors, right-of-way disputes, injuries resulting from contact with electrified facilities and employment-related arbitrations and litigation.

• Regulatory/Nuclear – responsibilities include handling contested case proceedings, rulemakings and projects ongoing before any state or federal agency. They also ensure that AEP operations, including AEP Texas, are consistent with state and federal legal requirements and policies applicable to regulated utilities.

• Real Estate – responsibilities include overseeing negotiations and documentation required in connection with a variety of real estate transactions entered into by AEP companies.

• Transactions, Commercial Operations and Logistics – responsibilities include drafting, negotiating and interpreting many different types of contracts that AEP must enter into in the ordinary course of business, including software licenses, vendor contracts, and purchase and sale agreements related to facilities.

• Finance and Compliance – responsibilities include all corporate financings, overseeing the preparation of SEC reports required by federal law and regulations, such as Forms 10-K, 10-Q and 8-K, and ensuring that financial activities are in compliance with the corporate charter, by-laws, and state corporate laws.

• Tax and Corporate Services – responsibilities include advising AEP companies on all aspects of state, local and federal taxation. They also do pension-related Employee Retirement Income Security Act and compliance work and handle legal matters related to the drafting and administration of employee health, welfare and benefit plans.

• Environmental, Safety & Health – responsibilities include the provision of legal services to AEP companies, including AEP Texas, related to environmental, health and safety issues.

Q. WHAT ALLOCATION FACTORS ARE PREDOMINATELY USED TO CHARGE LEGAL SERVICES TO AEP TEXAS?

A. Four allocation factors account for ~87% of the legal services costs charged to AEP Texas by AEPSC. They are “Total Assets,” “100% to One Company,” “Number of Employees,” and “Total Fixed Assets.”
Total Assets ($840,367) accounts for ~42% of the legal services charges to AEP Texas. These services relate to the management and participation in regulatory affairs, strategic planning and analysis, and process improvement efforts. The benefits from the provision of these services are directly related to the relative size of the respective companies.

100% to One Company ($491,117) accounts for ~25% of the legal services charges to AEP Texas. These services relate to any type of legal matter involving only AEP Texas. Legal support for regulatory filings specific to AEP Texas and real estate matters involving AEP Texas facilities would be directly charged.

Number of Employees ($227,995) accounts for ~11% of the legal services charges to AEP Texas. These services relate to variety of legal matters, some of which involve labor and employment issues, the development and administration of AEP benefit plans, code of conduct, and participation in training. These types of services are appropriately allocated in this manner because they are directly related to the number of employees at each company.

Total Fixed Assets ($176,581) accounts for ~9% of the legal services charges to AEP Texas. These services primarily include legal support of issues involving liability claims. Since these activities are in support of AEP assets, the total fixed assets allocation factor is the appropriate choice to allocate these costs.

Q. HOW ARE THE REMAINING AEPSC LEGAL SERVICES COSTS CHARGED TO AEP TEXAS?

A. The small amount of remaining costs ($265,115) is allocated using a variety of different allocation formulas. In each instance, however, the choice of the allocation factor for
a particular project or activity is the product of the same selection and review process
overseen by the AEPSC Accounting department and described earlier in my testimony.
Accordingly, these charges are likewise properly allocated based upon factors that
reflect principles of cost causation. Each of these allocation factors is provided on W/P
Frantz – 2B.

O. Physical/Cyber Security ($878,770)

Q. WHAT SERVICES ARE PROVIDED BY THE AEPSC PHYSICAL SECURITY
ORGANIZATION?

A. As discussed in greater detail in the testimony of AEP Texas witness Stanley Partlow,
the AEPSC Physical Security organization continually takes steps to enhance the AEP
System’s capabilities for identifying risks and threats. Some of the services it provides
include the following:

- 24x7x365 Monitoring – AEP operates a dedicated 24x7x365 Cyber
  Security Intelligence and Response Center and a dedicated Physical
  Security Operations Center responsible for monitoring the AEP System for
  threats as well as collaborating with internal and external threat sharing
  partners from both industry and government.

- Industry Collaboration – AEP is a member of a number of industry specific
  threat and information sharing communities including the Department of
  Homeland Security and the Electricity Information Sharing and Analysis
  Center.

- Enterprise Risk – AEP incorporated a new enterprise risk management
  framework, which provides a more comprehensive approach to
  understanding these risks in relation to other enterprise risks.

- Technology – AEP leverages advanced technologies to monitor and
  respond to Cyber and Physical threats.

Q. WHAT ALLOCATION FACTORS ARE PREDOMINATELY USED TO CHARGE
PHYSICAL SECURITY SERVICES TO AEP TEXAS?
A. Three allocation factors account for ~91% of the physical security costs charged to AEP Texas by AEPSC. They are “Total Gross Utility Plant,” “Number of Workstations,” and “Number of Employees.”

Total Gross Utility Plant ($340,704) accounts for ~39% of the physical security charges to AEP Texas. These services primarily relate to cyber security services. The benefits from the provision of these services are directly related to the relative size of the assets on the respective companies.

Number of Workstations ($333,415) accounts for ~38% of the physical security charges to AEP Texas. These services relate to Information Technology security costs, which are appropriately allocated in this manner because they are related to the number of workstations at each company.

Number of Employees ($126,023) accounts for ~14% of the physical security charges to AEP Texas. These services primarily relate to corporate stewardship security services. These types of services are appropriately allocated in this manner because they are directly related to the number of employees at each company.

Q. HOW ARE THE REMAINING AEPSC PHYSICAL SECURITY COSTS CHARGED TO AEP TEXAS?

A. The small amount of remaining costs ($78,628) is allocated using a variety of different allocation formulas. In each instance, however, the choice of the allocation factor for a particular project or activity is the product of the same selection and review process overseen by the AEPSC Accounting department and described earlier in my testimony. Accordingly, these charges are likewise properly allocated based
upon factors that reflect principles of cost causation. Each of these allocation factors is provided on W/P Frantz – 2B.

P. Corporate Communications ($678,346)

Q. WHAT SERVICES ARE PROVIDED BY THE AEPSC CORPORATE COMMUNICATIONS ORGANIZATION?

A. As discussed in greater detail in the testimony of AEP Texas witness Hughes, the AEPSC Corporate Communications organization provides services that relate to the support and facilitation of communications between AEP and its many internal and external constituencies. The corporate communications related departments are as follows:

- Internal Communications & Communications Services – responsibilities include researching, writing and disseminating information relevant to employees and serving as the primary communications liaison with the corporate Human Resources department. Responsibilities also include using AEP’s email system to send corporate messages to employees, and for developing and maintaining AEP Now, the AEP corporate intranet, which provides all employees with company information, safety and technical training, senior executive communication and other related information.

- Creative Services – responsibilities include serving as an in-house production agency, web and application development, researching and developing emerging electronic communications technology, and maintaining the repository of the corporate accountability report and other important company messages for investors and other stakeholders.

- Community Relations and Marketing – responsibilities include oversight of corporate philanthropic contributions, including the grants administration for the AEP Foundation; coordinates administration of database to process and track contribution and membership payments to organizations; and develops advertising campaigns and handles advertising scholarships.
• External Communications – responsibilities include support in responding to media inquiries with AEP’s position on industry, national, and corporate issues and responsible for the corporation’s overall social media strategy and social media support for the operating companies, including AEP Texas. Group is also responsible for developing and maintaining AEP.com, AEP’s website, and major elements of aep texas.com, the website specific to AEP Texas.

Q. WHAT ALLOCATION FACTORS ARE PREDOMINATELY USED TO CHARGE CORPORATE COMMUNICATIONS SERVICES TO AEP TEXAS?

A. One allocation factor, “Total Assets,” accounts for ~94% of the corporate communications costs charged to AEP Texas by AEPSC.

Total Assets ($640,744) services include support for requests for video and photographic services; manage and participate in various forms of communications with employees; and external communications. Total assets is a reasonable and appropriate allocation factor because these activities involve ensuring that correct information is provided regarding the company’s status and actions.

Q. HOW ARE THE REMAINING AEPSC CORPORATE COMMUNICATIONS COSTS CHARGED TO AEP TEXAS?

A. The small amount of remaining costs ($37,602) is allocated using a variety of different allocation formulas. In each instance, however, the choice of the allocation factor for a particular project or activity is the product of the same selection and review process overseen by the AEPSC Accounting department and described earlier in my testimony. Accordingly, these charges are likewise properly allocated based upon factors that reflect principles of cost causation. Each of these allocation factors is provided on W/P Frantz – 2B.
Q. Environmental Services ($497,993)

Q. WHAT SERVICES ARE PROVIDED BY THE AEPSC ENVIRONMENTAL SERVICES ORGANIZATION?

A. As discussed in greater detail in the testimony of AEP Texas witness Strahler, the AEPSC Environmental Services organization provides expertise in the areas of environmental compliance. Two groups, Water & Ecological Resource Services Quality and Land, Environmental & Remediation Services, provide day-to-day environmental permitting for transmission projects and environmental compliance support for transmission and distribution facilities.

Q. WHAT ALLOCATION FACTORS ARE PREDOMINATELY USED TO CHARGE ENVIRONMENTAL SERVICES TO AEP TEXAS?

A. Four allocation factors account for ~93% of the environmental services costs charged to AEP Texas by AEPSC. They are "100% to One Company," "Number of Transmission Pole Miles," "Total Fixed Assets," and "Number of Electric Retail Customers."

100% to One Company ($216,533) accounts for ~43% of the environmental charges to AEP Texas. All environmental services provided directly to AEP Texas facilities are directly charged.

Number of Transmission Pole Miles ($132,845) accounts for ~27% of the environmental charges to AEP Texas. Services provided include oversight of water and waste testing on behalf of the AEP facilities. These testing services are provided for the benefit of the AEP transmission companies, so the relative level of transmission pole miles of each company is most reasonable method to allocate these shared costs.